

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

remaining available for use under the acquisition shelf registration as of December 31, 2013 is 1,904,487 shares. The form and terms of any securities issued under these shelf registrations will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan (“Plan”) that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price. The shares issued under the Plan are either original issue shares or shares purchased by the Company’s transfer agent in the open-market. During 2013, 2012, and 2011, under the dividend reinvestment portion of the Plan, 432,894, 711,740, and 735,931 original issue shares of common stock were sold providing the Company with proceeds of \$10,107, \$12,921, and \$12,304, respectively. In 2013, 154,900 shares of the Company were purchased under the dividend reinvestment portion of the Plan by the Company’s transfer agent in the open-market for \$3,693.

In October 2013, the Company’s Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 685,348 shares of its common stock in the open market or through privately negotiated transactions. This authorization renewed the number of shares that had remained, when affected for stock splits, from an existing share buy-back authorization from 1997. The specific timing, amount and other terms of repurchases will depend on market conditions, regulatory requirements and other factors. As of December 31, 2013, 685,348 shares remain available for repurchase.

The Company’s accumulated other comprehensive income is reported in the stockholders’ equity section of the consolidated balance sheets, the consolidated statements of equity, and the related components of other comprehensive income are reported in the consolidated statements of comprehensive income. The Company reports its unrealized gains or losses on investments as other comprehensive income and accumulated other comprehensive income. The Company recorded a regulatory asset for its underfunded status of its pension and post-retirement benefit plans that would otherwise be charged to other comprehensive income, as it anticipates recovery of its costs through customer rates.

Note 13 – Net Income per Common Share and Equity per Common Share

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

	Years ended December 31,		
	2013	2012	2011
Average common shares outstanding during the period for basic computation	176,140	174,201	172,727
Effect of dilutive securities:			
Employee stock-based compensation	674	717	634
Average common shares outstanding during the period for diluted computation	176,814	174,918	173,361

For the year ended December 31, 2013, all of the Company’s employee stock options were included in the calculation 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 this period.

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For the years ended December 31, 2012, and 2011, employee stock options to purchase 534,315 and 1,157,875 shares of common stock, respectively, were excluded from the calculations of diluted net income per share as the calculated proceeds from the options' exercise were greater than the average market price of the Company's common stock during these periods.

Equity per common share was \$8.68 and \$7.91 at December 31, 2013 and 2012, respectively. These amounts were computed by dividing Aqua America stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Note 14 – Employee Stock and Incentive Plan

Under the Company's 2009 Omnibus Equity Compensation Plan (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2009 Plan may be issued as stock awards or share units and the maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 250,000. Shares issued under the 2009 Plan may be original issue shares, the issuance of treasury shares, or shares purchased by the Company in the open-market. Awards under the 2009 Plan are made by a committee of the Board of Directors. At December 31, 2013, 4,680,779 shares underlying stock-based compensation awards were still available for grant under the 2009 Plan. No further grants may be made under the 2004 plan.

Performance Share Units – During 2013, 2012, and 2011, the Company granted 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 periods, 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, which consist of the following metrics for the 2012 and 2011 grants: 25% of the PSUs will be earned based on the Company's total shareholder return ("TSR") compared to the TSR for the companies listed in the Standard and Poor's Midcap Utilities Index (a market-based condition), 25% of the PSUs will be earned based on the Company's TSR compared to the TSR for a specific peer group of six other investor-owned water companies (a market-based condition), and 50% of the PSUs will be earned based on the Company's three-year compound annual growth rate ("CAGR") in earnings per share ("EPS") compared to a target EPS CAGR of 5% (a performance-based condition), and for the 2013 grant: 30% of the PSUs will be earned based on the Company's TSR compared to the TSR for a specific peer group of six other investor-owned water companies (a market-based condition), 30% of the PSUs will be earned based on the Company's TSR compared to the TSR for the companies listed in the Standard and Poor's Midcap Utilities Index (a market-based condition), 20% of the PSUs will be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania compared to a target average ratio for the three year performance period (a performance-based condition), and 20% of the PSUs will be earned based on earning a cumulative total earnings before taxes for the Company operations other than Aqua Pennsylvania for the three year performance period compared to a target (a performance-based condition).

The following table provides compensation costs for PSUs:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	\$ 3,451	\$ 2,552	\$ 943
Income tax benefit	1,406	1,040	384

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The following table summarizes nonvested PSU transactions for the year ended December 31, 2013:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	414,168	\$ 18.82
Granted	166,641	26.88
Performance criteria adjustment	(15,165)	18.21
Forfeited	(19,552)	21.74
Vested	(18,000)	19.51
Share unit awards issued	-	-
Nonvested share units at end of period	<u>528,092</u>	<u>\$ 21.25</u>

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions associated with the PSUs using the Monte Carlo valuation method. The other portion of the fair value of the PSUs associated with performance-based conditions was 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 fair value of each PSU grant is amortized into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on an estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows. The following table provides the assumptions used in the pricing model for the grant and the resulting grant date fair value of PSUs:

	Years ended December 31,		
	2013	2012	2011
Expected term (years)	3.0	3.0	3.0
Risk-free interest rate	0.36%	0.43%	1.22%
Expected volatility	20.0%	22.1%	29.7%
Weighted average fair value of PSUs granted	\$ 26.88	\$ 19.11	\$ 19.50

As of December 31, 2013, \$4,486 of unrecognized compensation costs related to PSUs is expected to be recognized over a weighted average period of approximately 1.6 years. The intrinsic value of vested PSUs for the year ended December 31, 2013 was \$415. The aggregate intrinsic value of PSUs as of December 31, 2013 was \$12,458. The aggregate intrinsic value of PSUs is based on the number of nonvested share units and the market value of the Company's common stock as of the period end date.

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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 and is valued based on the fair market value of the Company’s stock on the date of grant. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. In some cases, the right to receive the shares is subject to specific performance goals established at the time the grant is made. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. The following table provides compensation costs for RSUs:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	\$ 813	\$ 634	\$ 342
Income tax benefit	336	262	142

The following table summarizes nonvested RSU transactions for the year ended December 31, 2013:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	85,597	\$ 17.89
Granted	48,133	23.28
Vested	(19,500)	17.83
Forfeited	(1,564)	20.78
Nonvested stock units at end of period	112,666	\$ 20.16

The following table summarizes the value of RSUs:

	Years ended December 31,		
	2013	2012	2011
Weighted average fair value of RSUs granted	\$ 23.28	\$ 17.99	\$ 17.77

As of December 31, 2013, \$1,070 of unrecognized compensation costs related to RSUs is expected to be recognized over a weighted average period of approximately 1.6 years. The intrinsic value of vested RSUs for the years ended December 31, 2013 and 2012 was \$449 and \$247. The fair value of vested RSUs for the years ended December 31, 2013 and 2012 was \$348 and \$195. The aggregate intrinsic value of RSUs as of December 31, 2013 was \$2,658. The aggregate intrinsic value of RSUs is based on the number of nonvested stock units and the market value of the Company’s common stock as of the period end date.

Stock Options – The following table provides compensation costs for stock options:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	\$ 30	\$ 612	\$ 1,361
Income tax benefit	461	580	673

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There were no stock options granted during the years ended December 31, 2013, 2012, and 2011. During the second quarter of 2011, the Company changed its estimation assumptions related to its historical stock option forfeitures which resulted in a favorable adjustment to compensation expense of \$644 and additional income tax expense of \$52.

The Company estimates forfeitures in calculating compensation expense instead of recognizing these forfeitures and the resulting reduction in compensation expense as they occur. The estimate of forfeitures will be adjusted over the vesting period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. The recording of compensation expense for share-based compensation has no impact on net cash flows and results in the reclassification on the consolidated cash flow statements of related tax benefits from cash flows from operating activities to cash flows from financing activities to the extent these tax benefits exceed the associated compensation cost.

Options under the plans were issued at the closing market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The fair value of each option was amortized into compensation expense on a straight-line basis over their respective 36 month vesting period, net of estimated forfeitures. The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model, which relies on assumptions that require management's judgment.

The following table summarizes stock option transactions for the year ended December 31, 2013:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options:				
Outstanding, beginning of year	3,121,388	\$ 16.65		
Granted	-	-		
Forfeited	-	-		
Expired	(17,189)	22.84		
Exercised	(1,566,089)	16.41		
Outstanding and exercisable at end of year	1,538,110	\$ 16.82	3.7	\$ 10,410

The intrinsic value of stock options is the amount by which the market price of the stock on a given date, such as at the end of the period or on the day of exercise, exceeded the closing market price of stock on the date of grant. The following table summarizes the aggregate intrinsic value of stock options exercised and the fair value of stock options which became vested:

	Years ended December 31,		
	2013	2012	2011
Intrinsic value of options exercised	\$ 10,410	\$ 5,547	\$ 3,071
Fair value of options vested	500	1,318	2,077

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The following table summarizes information about the options outstanding and options exercisable as of December 31, 2013:

Options Outstanding and Exercisable			
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
Range of prices:			
\$12.00 - 12.99	78,471	0.2	\$ 12.92
\$13.00 - 14.99	451,318	3.7	14.04
\$15.00 - 16.99	518,231	4.5	15.71
\$17.00 - 19.99	236,157	3.2	18.61
\$20.00 - 23.99	253,933	2.2	23.57
	1,538,110	3.7	\$ 16.82

As of December 31, 2013, there was \$0 of total unrecognized compensation cost related to nonvested stock options granted under the plans.

Restricted Stock – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis.

The following table provides compensation costs for restricted stock:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	\$ 770	\$ 1,739	\$ 1,800
Income tax benefit	320	721	740

The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2013:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	147,160	\$ 15.38
Granted	16,000	25.09
Vested	(100,660)	15.49
Forfeited	-	-
Nonvested shares at end of period	62,500	\$ 17.70

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The following table summarizes the value of restricted stock awards:

	Years ended December 31,		
	2013	2012	2011
Intrinsic value of restricted stock awards vested	\$ 2,236	\$ 2,384	\$ 2,020
Fair value of restricted stock awards vested	1,560	1,971	1,650
Weighted average fair value of restricted stock awards granted	25.09	18.47	17.77

As of December 31, 2013, \$338 of unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted average period of approximately 6 months. The aggregate intrinsic value of restricted stock as of December 31, 2013 was \$1,474. The aggregate intrinsic value of restricted stock is based on the number of nonvested shares of restricted stock and the market value of the Company's common stock as of the period end date.

Note 15 – Pension Plans and Other Post-retirement Benefits

The Company maintains qualified, defined benefit pension plans that cover its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations over time. To offset some limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Supplemental Pension Benefit Plan for Salaried Employees in order to prevent some employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for some current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In addition to providing pension benefits, the Company offers Post-retirement Benefits other than Pensions ("PBOPs") to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits, or a cash contribution toward such benefits, for eligible retirees and life insurance benefits for eligible retirees. The Company funds its gross PBOP cost through various trust accounts. The benefits of retired officers and other eligible retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years:	Pension Benefits	Other Post-retirement Benefits
2014	\$ 11,601	\$ 1,680
2015	12,400	1,897
2016	13,212	2,177
2017	14,048	2,464
2018	14,948	2,760
2019-2023	87,278	17,027

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The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 303,077	\$ 237,087	\$ 63,033	\$ 50,189
Service cost	5,313	4,920	1,525	1,309
Interest cost	12,660	12,728	2,579	2,482
Actuarial (gain) loss	(30,223)	34,750	(9,024)	5,218
Plan participants' contributions	-	-	190	199
Benefits paid	(10,332)	(9,329)	(1,129)	(1,160)
Plan amendments	666	-	-	(392)
Acquisition	-	23,652	-	5,188
Settlements	-	(731)	-	-
Benefit obligation at December 31,	<u>281,161</u>	<u>303,077</u>	<u>57,174</u>	<u>63,033</u>
Change in plan assets:				
Fair value of plan assets at January 1,	190,084	148,912	34,054	28,131
Actual return on plan assets	36,517	17,153	5,800	2,019
Employer contributions	16,078	15,256	1,913	1,905
Benefits paid	(10,332)	(9,329)	(927)	(941)
Acquisition	-	18,823	-	2,940
Settlements	-	(731)	-	-
Fair value of plan assets at December 31,	<u>232,347</u>	<u>190,084</u>	<u>40,840</u>	<u>34,054</u>
Funded status of plan:				
Net amount recognized at December 31,	<u>\$ 48,814</u>	<u>\$ 112,993</u>	<u>\$ 16,334</u>	<u>\$ 28,979</u>

The Company's pension plans had an accumulated benefit obligation of \$246,843 and \$267,400 at December 31, 2013 and 2012, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Current liability	\$ 366	\$ 222	\$ -	\$ -
Noncurrent liability	48,448	112,771	16,334	28,979
Net liability recognized	<u>\$ 48,814</u>	<u>\$ 112,993</u>	<u>\$ 16,334</u>	<u>\$ 28,979</u>

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At December 31, 2013 and 2012, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets			
	2013		2012	
	Projected benefit obligation	\$	281,161	\$
Fair value of plan assets		232,347		190,084

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets			
	2013		2012	
	Accumulated benefit obligation	\$	246,843	\$
Fair value of plan assets		232,347		190,084

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The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Post-retirement Benefits		
	2013	2012	2011	2013	2012	2011
Service cost	\$ 5,313	\$ 4,920	\$ 4,127	\$ 1,525	\$ 1,309	\$ 1,092
Interest cost	12,660	12,728	12,052	2,579	2,482	2,414
Expected return on plan assets	(14,770)	(13,588)	(11,731)	(2,268)	(1,950)	(1,689)
Amortization of transition obligation	-	-	-	-	-	104
Amortization of prior service cost	228	277	253	(295)	(299)	(268)
Amortization of actuarial loss	8,169	6,568	3,578	1,479	1,024	783
Amortization of regulatory asset	-	-	-	-	69	137
Settlement loss	-	304	-	-	90	-
Capitalized costs	(4,231)	(3,696)	(3,499)	(745)	(671)	(668)
Net periodic benefit cost	\$ 7,369	\$ 7,513	\$ 4,780	\$ 2,275	\$ 2,054	\$ 1,905

The Company records the underfunded status of its pension and other post-retirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to stockholders' equity, as the Company anticipates recoverability of the costs through customer rates. The Company's pension and other post-retirement benefit plans were underfunded at December 31, 2013 and 2012. Changes in the plans' funded status will affect the assets and liabilities recorded on the balance sheet. Due to the Company's regulatory treatment, the recognition of the funded status is recorded as a regulatory asset pursuant to the FASB's accounting guidance for regulated operations.

The following table provides the amounts recognized in regulatory assets that have not been recognized as components of net periodic benefit cost as of December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Net actuarial loss	\$ 46,843	\$ 106,980	\$ 7,280	\$ 21,315
Prior service cost (credit)	1,734	1,297	(682)	(977)
Total recognized in regulatory assets	\$ 48,577	\$ 108,277	\$ 6,598	\$ 20,338

The estimated net actuarial loss, prior service cost, and transition asset for the Company's pension plans that will be amortized in 2014 from the regulatory assets into net periodic benefit cost are \$2,001, \$277, and \$0, respectively. The estimated net actuarial loss, prior service credit, and transition obligation for the Company's other post-retirement benefit plans that will be amortized in 2014 from regulatory assets into net periodic benefit cost are \$329, \$295, and \$0, respectively.

Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that the Company recognizes.

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The significant assumptions related to the Company's benefit obligations are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	5.12%	4.17%	5.12%	4.17%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	7.5%	8.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2019	2019

n/a – Assumption is not applicable to pension benefits.

The significant assumptions related to the Company's net periodic benefit costs are as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2013	2012	2011	2013	2012	2011
Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Discount rate	4.17%	5.00%	5.75%	4.17%	5.00%	5.75%
Expected return on plan assets	7.50%	7.75%	7.8%	5.00-7.50%	5.17-7.75%	5.17-7.75%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0-4.5%	4.0%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Health care cost trend rate	n/a	n/a	n/a	8.0%	8.5%	9.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend	n/a	n/a	n/a	2019	2019	2019

n/a – Assumption is not applicable to pension benefits.

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Assumed health-care trend rates have a significant effect on the expense and liabilities for other post-retirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed health-care cost trend rates would have the following effects:

	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on the health-care component of the accrued other post-retirement benefit obligation	\$ 3,690	\$ (3,490)
Effect on aggregate service and interest cost components of net periodic post-retirement health-care benefit cost	\$ 308	\$ (285)

The Company's discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least \$50,000 in outstanding value. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2013 pension expense by \$898 and the pension liabilities by \$10,270.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. The Company's pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2013 pension expense by \$492. For 2013, the Company used a 7.50% expected return on assets assumption which will remain unchanged for 2014. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Barclays Capital Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset class are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
		2013	2012
Asset Class:			
Domestic equities	25 to 75%	65%	55%
International equities	0 to 10%	7%	8%
Fixed income	25 to 50%	24%	22%
Alternative investments	0 to 5%	1%	2%
Cash and cash equivalents	0 to 20%	3%	13%
Total	100%	100%	100%

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The fair value of the Company's pension plans' assets at December 31, 2013 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	\$ 149,456	\$ 149,456	\$ -	\$ -
Mutual funds	2,215	2,215	-	-
International equities (2)	16,256	16,256	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	24,750	-	24,750	-
Corporate and foreign bonds	6,459	-	6,459	-
Mutual funds	24,640	24,640	-	-
Alternative investments (4)				
Real estate	1,950	1,950	-	-
Commodity funds	1,291	1,291	-	-
Cash and cash equivalents (5)	5,330	-	5,330	-
Total pension assets	<u>\$ 232,347</u>	<u>\$ 195,808</u>	<u>\$ 36,539</u>	<u>\$ -</u>

The fair value of the Company's pension plans' assets at December 31, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	\$ 105,381	\$ 105,381	\$ -	\$ -
International equities (2)	14,531	14,531	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	12,156	-	12,156	-
Corporate and foreign bonds	5,975	-	5,975	-
Mutual funds	23,226	23,226	-	-
Alternative investments (4)				
Real estate	2,890	2,890	-	-
Commodity funds	1,700	1,700	-	-
Cash and cash equivalents (5)	24,225	-	24,225	-
Total pension assets	<u>\$ 190,084</u>	<u>\$ 147,728</u>	<u>\$ 42,356</u>	<u>\$ -</u>

- (1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
- (2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.
- (3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.
- (4) Investments in real estate are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets. Investments in commodity funds are valued using unadjusted quoted prices obtained from active markets.

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

- (5) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Equity securities include Aqua America, Inc. common stock in the amounts of \$14,983 or 6.5% and \$12,596 or 6.6% of total pension plans' assets as of December 31, 2013 and 2012, respectively.

The asset allocation for the Company's other post-retirement benefit plans and the target allocation by asset class are as follows:

Asset Class:	Target Allocation	Percentage of Plan Assets at December 31,	
		2013	2012
Domestic equities	25 to 75%	58%	40%
International equities	0 to 10%	5%	6%
Fixed income	25 to 50%	24%	26%
Alternative investments	0 to 5%	1%	1%
Cash and cash equivalents	0 to 20%	12%	27%
Total	100%	100%	100%

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2013 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	\$ 12,811	\$ 12,811	\$ -	\$ -
Mutual funds	10,977	10,977	-	-
International equities (2)	2,061	2,061	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	4,679	-	4,679	-
Corporate and foreign bonds	3,933	-	3,933	-
Mutual funds	1,393	1,393	-	-
Alternative investments (4)	162	162	-	-
Cash and cash equivalents (5)	4,824	-	4,824	-
Total other post-retirement assets	\$ 40,840	\$ 27,404	\$ 13,436	\$ -

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	\$ 8,219	\$ 8,219	\$ -	\$ -
Mutual funds	5,378	5,378	-	-
International equities (2)	1,895	1,895	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	4,751	-	4,751	-
Corporate and foreign bonds	2,735	-	2,735	-
Mutual funds	1,398	1,398	-	-
Alternative investments (4)	143	143	-	-
Cash and cash equivalents (5)	9,535	-	9,535	-
Total other post-retirement assets	<u>\$ 34,054</u>	<u>\$ 17,033</u>	<u>\$ 17,021</u>	<u>\$ -</u>

- (1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
- (2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.
- (3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.
- (4) Investments in alternative investments are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets.
- (5) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2014 our pension contribution is expected to be approximately \$17,875. The Company's funding of its PBOP cost during 2014 is expected to approximate \$2,763.

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are initially invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to specific limitations. Participants may diversify their Company matching account balances into other investments offered under the 401(k) savings plans. The Company's matching contribution and annual profit-sharing contribution, recorded as compensation expense, was \$2,790, \$2,741, and \$2,496, for the years ended December 31, 2013, 2012, and 2011, respectively.

Note 16 – Water and Wastewater Rates

In August 2013, the Company's operating subsidiary in North Carolina filed an application with the North Carolina Utilities Commission designed to increase water and wastewater rates by \$8,611, or 19.2%, on an annual basis. The amount of the final rate aware that might be granted by the North Carolina Utilities Commission can vary significantly from the amount requested. The Company anticipates a final order to be issued by May 2014.

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

On June 7, 2012, the Pennsylvania Public Utility Commission granted Aqua Pennsylvania a water rate increase designed to increase total operating revenues by \$16,700, on an annualized basis. The rates in effect at the time of the filing included \$27,449 in Distribution System Improvement Charges (“DSIC”) or 7.5% above prior base rates. Consequently, the total base rates increased by \$44,149 since the last base rate increase and the DSIC was reset to zero. In addition, the rate case settlement provides for flow-through accounting treatment of qualifying income tax benefits if the Company changes its tax accounting method to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. In December 2012, Aqua Pennsylvania implemented the Repair Change which resulted in the net recognition of 2012 income tax benefits of \$33,565 which reduced the Company’s Federal and state income tax expense as it was flowed-through to net income in the fourth quarter of 2012. In addition, the Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012, and, based on the settlement agreement, in 2013, the Company began to amortize 1/10th of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, the Company amortized its catch-up adjustment and recognized \$15,766 of deferred income tax benefits, which reduced income tax expense and increased the Company’s net income. As a result of the Repair Change, the fourth quarter 2012 DSIC of 2.82% for Aqua Pennsylvania’s water customers was reset to zero beginning January 1, 2013, and Aqua Pennsylvania did not file a water base rate case or a DSIC in 2013.

In February 2012, two of the Company’s operating subsidiaries in Texas began to bill interim rates in accordance with authorization from the Texas Commission on Environmental Quality (“TCEQ”). The additional revenue billed and collected prior to the TCEQ’s final ruling was subject to refund based on the outcome of the rate case. The rate case concluded with the issuance of an order on June 3, 2013, and no refunds of revenue previously billed and collected were required.

The Company’s operating subsidiaries, excluding the 2012 Pennsylvania water award discussed above, were allowed annual rate increases of \$9,431 in 2013, \$17,923 in 2012, and \$6,311 in 2011, represented by six, nine, and twelve rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$8,169, \$13,754, and \$3,312 in 2013, 2012, and 2011, respectively.

Five states in which the Company operates permit water utilities, and in three states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, New Jersey, and Indiana allow for the use of infrastructure rehabilitation surcharges, and in 2013, North Carolina legislators passed a law allowing for an infrastructure rehabilitation surcharge for regulated water and wastewater utilities; as a result, the Company’s operating subsidiary in North Carolina has filed a request to implement an infrastructure rehabilitation surcharge for 2014, which is subject to approval by the North Carolina Utilities Commission. These surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility’s earnings exceed a regulatory benchmark. In 2013, the infrastructure rehabilitation surcharge was suspended for Aqua Pennsylvania’s water customers as a result of the implementation of the repair tax accounting change. Infrastructure rehabilitation surcharges provided revenues in 2013, 2012, and 2011 of \$3,205, \$15,911, and \$15,937, respectively.

Selected Quarterly Financial Data (Unaudited)
Aqua America, Inc. and Subsidiaries
(In thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2013					
Operating revenues	\$ 180,035	\$ 195,655	\$ 204,345	\$ 188,608	\$ 768,643
Operations and maintenance expense	68,311	70,858	72,065	74,106	285,340
Operating income	67,561	80,665	87,380	69,636	305,242
Income from continuing operations	41,231	53,548	63,484	46,730	204,993
Income from discontinuing operations	5,334	38	133	10,802	16,307
Net income attributable to common shareholders	46,565	53,586	63,617	57,532	221,300
Basic income from continuing operations per common share	0.24	0.30	0.36	0.26	1.16
Diluted income from continuing operations per common share	0.23	0.30	0.36	0.26	1.16
Basic income from discontinued operations per common share	0.03	0.00	0.00	0.06	0.09
Diluted income from discontinued operations per common share	0.03	0.00	0.00	0.06	0.09
Basic net income per common share	0.27	0.30	0.36	0.33	1.26
Diluted net income per common share	0.26	0.30	0.36	0.32	1.25
Dividend paid per common share	0.140	0.140	0.152	0.152	0.584
Dividend declared per common share	0.140	0.292	-	0.152	0.584
Price range of common stock					
- high	25.17	26.62	28.12	25.78	28.12
- low	20.61	23.52	24.01	22.69	20.61
2012					
Operating revenues	\$ 164,024	\$ 191,690	\$ 214,565	\$ 187,481	\$ 757,760
Operations and maintenance expense	64,825	63,571	71,268	72,179	271,843
Operating income	61,839	87,032	100,535	72,111	321,517
Income from continuing operations	26,889	41,780	50,284	65,134	184,087
Income/(loss) from discontinuing operations	11,015	(335)	375	1,421	12,476
Net income attributable to common shareholders	37,904	41,445	50,659	66,555	196,563
Basic income from continuing operations per common share	0.16	0.24	0.29	0.37	1.06
Diluted income from continuing operations per common share	0.15	0.24	0.29	0.37	1.05
Basic income from discontinued operations per common share	0.06	0.00	0.00	0.01	0.07
Diluted income from discontinued operations per common share	0.06	0.00	0.00	0.01	0.07
Basic net income per common share	0.22	0.24	0.29	0.38	1.13
Diluted net income per common share	0.22	0.24	0.29	0.38	1.12
Dividend paid per common share	0.132	0.132	0.132	0.140	0.536
Dividend declared per common share	0.132	0.132	0.272	-	0.536
Price range of common stock					
- high	18.20	20.14	21.54	20.75	21.54
- low	16.85	17.22	19.25	19.32	16.85

All per share data presented above has been adjusted for the 2013 5-for-4 common stock split effected in the form of a 25% stock distribution.

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividend paid in September 2013 of \$0.152 was declared in May 2013, and the cash dividend paid in December 2012 of \$0.140 was declared in August 2012.

Summary of Selected Financial Data (Unaudited)
Aqua America, Inc. and Subsidiaries
(In thousands of dollars, except per share amounts)

Years ended December 31,	2013	2012	2011	2010	2009
PER COMMON SHARE:					
Income from continuing operations					
Basic	\$ 1.16	\$ 1.06	\$ 0.82	\$ 0.68	\$ 0.58
Diluted	1.16	1.05	0.82	0.68	0.58
Income from discontinuing operations					
Basic	0.09	0.07	0.01	0.04	0.03
Diluted	0.09	0.07	0.01	0.04	0.03
Net income					
Basic	1.26	1.13	0.83	0.72	0.61
Diluted	1.25	1.12	0.83	0.72	0.61
Cash dividends declared and paid	0.58	0.54	0.50	0.47	0.44
Return on Aqua America stockholders' equity	14.4%	14.2%	11.4%	10.6%	9.4%
Book value at year end	\$ 8.68	\$ 7.91	\$ 7.21	\$ 6.82	\$ 6.50
Market value at year end	23.59	20.34	17.64	17.98	14.01
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	\$ 768,643	\$ 757,760	\$ 687,291	\$ 660,186	\$ 609,897
Depreciation and amortization	124,793	116,996	108,300	111,716	107,118
Interest expense, net (1)	77,316	77,757	77,804	73,393	66,345
Income from continuing operations before income taxes	227,683	250,968	210,794	191,319	162,066
Provision for income taxes	22,690	66,881	69,111	74,940	63,626
Income from continuing operations	204,993	184,087	141,683	116,379	98,440
Income from discontinued operations	16,307	12,476	1,386	7,596	5,913
Net income attributable to common shareholders	221,300	196,563	143,069	123,975	104,353
BALANCE SHEET HIGHLIGHTS:					
Total assets	\$ 5,051,817	\$ 4,858,517	\$ 4,348,420	\$ 4,072,466	\$ 3,749,862
Property, plant and equipment, net	4,167,293	3,936,163	3,530,942	3,276,517	3,032,916
Aqua America stockholders' equity	1,534,835	1,385,704	1,251,313	1,174,254	1,108,904
Long-term debt, including current portion	1,554,871	1,588,992	1,475,886	1,519,457	1,404,930
Total debt	1,591,611	1,669,375	1,583,657	1,609,125	1,432,361
ADDITIONAL INFORMATION:					
Operating cash flows from continuing operations	\$ 366,720	\$ 377,485	\$ 352,041	\$ 244,717	\$ 244,318
Capital additions	308,171	347,985	325,808	308,134	266,190
Net cash expended for acquisitions of utility systems and other	14,997	121,248	8,515	8,625	3,373
Dividends on common stock	102,889	93,423	87,133	80,907	74,729
Number of utility customers served (2)	941,008	968,357	966,136	962,970	953,437
Number of shareholders of common stock	25,833	26,216	26,744	27,274	27,984
Common shares outstanding (000)	176,751	175,209	173,519	172,219	170,607
Employees (full-time) (2)	1,553	1,619	1,615	1,632	1,632

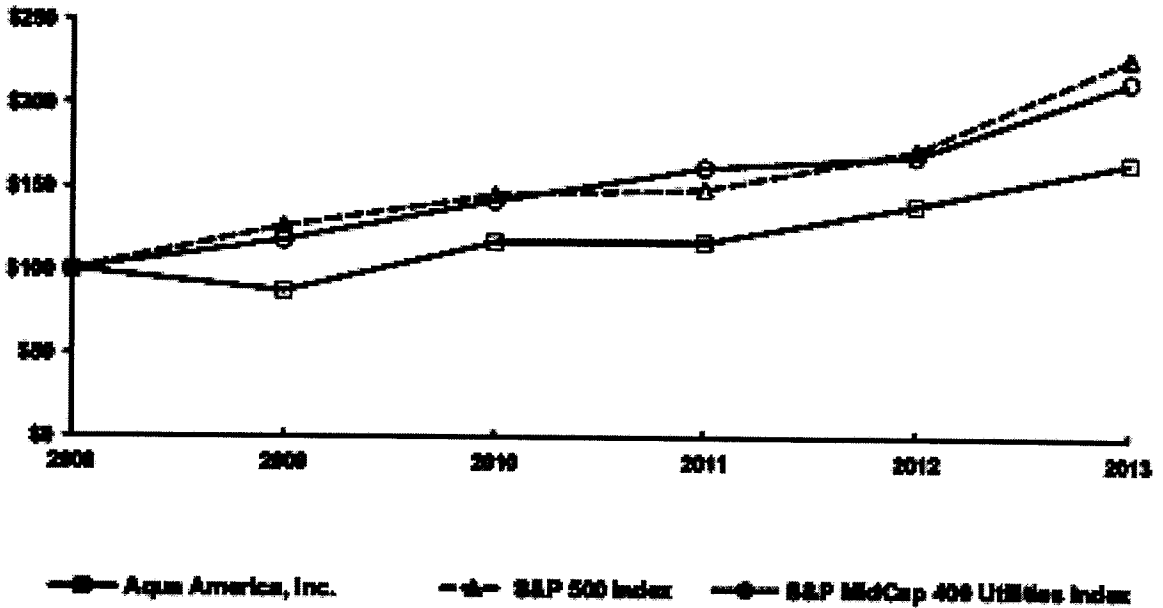
All per share data presented above has been adjusted for the 2013 5-for-4 common stock split effected in the form of a 25% stock distribution.

- (1) Net of allowance for funds used during construction and interest income.
(2) Includes continuing and discontinued operations.

Stock Price Performance

The graph below matches the cumulative 5-Year total return to shareholders of Aqua America, Inc.'s common stock with the cumulative total returns of the S&P 500 Index and the S&P MidCap 400 Utilities Index, a customized peer group of seventeen companies that includes: Alliant Energy Corp., Aqua America Inc., Atmos Energy Corp., Black Hills Corp., Cleco Corp., Great Plains Energy Inc., Hawaiian Electric Industries Inc., Idacorp Inc., MDU Resources Group Inc., National Fuel Gas Company, OGE Energy Corp., PNM Resources Inc., Questar Corp., UGI Corp., Vectren Corp., Westar Energy Inc. and WGL Holdings Inc. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was \$100 on 12/31/2008 and tracks it through 12/31/2013.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN*
Among Aqua America, Inc., the S&P 500 Index, and S&P MidCap 400 Utilities Index



*\$100 Invested on 12/31/08 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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	Years as of December 31,					
	2008	2009	2010	2011	2012	2013
Aqua America, Inc.	100.00	87.77	116.28	117.29	139.10	165.20
S&P 500 Index	100.00	126.46	145.51	148.59	172.37	228.19
S&P MidCap 400 Utilities Index	100.00	118.01	141.79	162.03	168.86	213.17

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Financial Reports and Investor Relations

Copies of the company's public financial reports, including annual reports and Forms 10-K and 10-Q, are available online and can be downloaded from the Investor Relations section of our Website at www.aquaamerica.com. You may also obtain these reports by writing to us at:

Investor Relations Department
Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489

Corporate Governance

We are committed to maintaining high standards of corporate governance and are in compliance with the corporate governance rules of the Securities and Exchange Commission (SEC) and the New York Stock Exchange. Copies of our key corporate governance documents, including our Corporate Governance Guidelines, Code of Ethical Business Conduct, and the charters of each committee of our Board of Directors can be obtained from the corporate governance portion of the Investor Relations section of our Website, www.aquaamerica.com. Amendments to the Code, and in the event of any grant of waiver from a provision of the Code requiring disclosure under applicable SEC rules will be disclosed on our Website.

Annual Meeting

8:30 a.m. Eastern Daylight Time
Wednesday, May 7, 2014
Drexelbrook Banquet Facility and Corporate Center
4700 Drexelbrook Drive
Drexel Hill, PA 19026

Transfer Agent and Registrar

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
800.205.8314 or 781.575.3100
www.computershare.com

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Two Commerce Square
Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042

Stock Exchange

The Common Stock of the company is listed on the New York Stock Exchange and under the ticker symbol **WTR**.

Dividend Reinvestment and Direct Stock Purchase Plan

The company's Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") enables shareholders to reinvest all, or a designated portion of, dividends paid on up to 100,000 shares of Common Stock in additional shares of Common Stock at a 5 percent discount from a price based on the market value of the stock. In addition, shareholders may purchase additional shares of Aqua America Common Stock at any time with a minimum investment of \$50, up to a maximum of \$250,000 annually. Individuals may become shareholders by making an initial investment of at least \$500. A Plan prospectus may be obtained by calling Computershare Trust Company at 800.205.8314 or by visiting www.computershare.com/investor. Please read the prospectus carefully before you invest.

IRA, Roth IRA, Education IRA

An IRA, Roth IRA or Coverdell Education Savings Account may be opened through the Plan to hold shares of Common Stock of the company and to make contributions to the IRA to purchase shares of Common Stock. Participants in the Plan may roll over an existing IRA or other qualified plan distribution in cash into an IRA under the Plan to purchase the company's Common Stock. Participants may also transfer the company's Common Stock from an existing IRA into an IRA under the Plan. A prospectus, IRA forms and a disclosure statement may be obtained by calling Computershare Trust Company at 800.597.7736. Please read the prospectus carefully before you invest.

Direct Deposit

With direct deposit, Aqua America cash dividends are deposited automatically on the dividend payment date of each quarter. Shareholders will receive confirmation of their deposit in the mail. Shareholders interested in direct deposit should call the company's transfer agent at 800.205.8314.

Delivery of Voting Materials to Shareholders Sharing an Address

The SEC's rules permit the Company to deliver a Notice of Internet Availability of Proxy Materials or a single set of proxy materials to one address shared by two or more of the Company's shareholders. This is intended to reduce the printing and postage expense of delivering duplicate voting materials to our shareholders who have more than one Aqua America stock account. A separate Notice of Internet Availability or proxy card is included for each of these shareholders. If you received a Notice of Internet Availability you will not receive a printed copy of the proxy materials unless you request it by following the instructions in the notice for requesting printed proxy materials.

How to Obtain a Separate Set of Voting Materials

If you are a registered shareholder who shares an address with another registered shareholder and have received only one Notice of Internet Availability of Proxy Materials or set of proxy materials and wish to receive a separate copy for each shareholder in your household for the 2014 annual meeting, you may write or call us to request a separate copy of this material at no cost to you at Attn: Investor Relations, Aqua America, Inc., 762 W. Lancaster Avenue, Bryn Mawr, PA, 19010 or 610.645.1196. For future annual meetings, you may request separate

voting material by calling Broadridge at 800.542.1061, or by writing to Broadridge Financial Solutions, Inc., Householding Department, 51 Mercedes Way, Edgewood, New York 11717.

Account Access

Aqua America shareholders may access their account by visiting www.computershare.com/investor. Shareholders may view their account, purchase additional shares, and make changes to their account. To learn more, visit www.computershare.com/investor or call 800.205.8314.

Dividends

Aqua America has paid dividends for 69 consecutive years. The normal Common Stock dividend dates for 2014 and the first six months of 2015 are:

Declaration Date	Ex-Dividend Date	Record Date	Payment Date
February 3, 2014	February 13, 2014	February 18, 2014	March 1, 2014
May 1, 2014	May 14, 2014	May 16, 2014	June 1, 2014
August 1, 2014	August 13, 2014	August 15, 2014	September 1, 2014
November 3, 2014	November 12, 2014	November 14, 2014	December 1, 2014
February 2, 2015	February 11, 2015	February 13, 2015	March 1, 2015
May 1, 2015	May 13, 2015	May 15, 2015	June 1, 2015

To be an owner of record, and therefore eligible to receive the quarterly dividend, shares must have been purchased before the ex-dividend date. Owners of any share(s) on or after the ex-dividend date will not receive the dividend for that quarter. The previous owner—the owner of record—will receive the dividend.

Only the Board of Directors may declare dividends and set record dates. Therefore, the payment of dividends and these dates may change at the discretion of the Board.

Dividends paid on the company's Common Stock are subject to Federal and State income tax.

Lost Dividend Checks and Stock Certificates

Dividend checks lost by shareholders, or those that might be lost in the mail, will be replaced upon notification of

the lost or missing check. All inquiries concerning lost or missing dividend checks should be made to the company's transfer agent, Computershare, at 800.205.8314. Shareholders should call or write Computershare to report a lost certificate. Appropriate documentation will be prepared and sent to the shareholder with instructions.

Safekeeping of Stock Certificates

Under the Direct Stock Purchase Plan, shareholders may have their stock certificates deposited with the transfer agent for safekeeping free of charge. Stock certificates and written instructions should be forwarded to: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078.

Notes

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Corporate Information

Board of Directors

Nicholas DeBenedictis
*Chairman, President and
Chief Executive Officer
Aqua America, Inc.
Director since 1992*

Michael L. Browne
*President and Chief Operating
Officer
Harleysville Insurance
Director since 2013*

Mary C. Carroll
*Non-profit Advisor and Civic
Volunteer
Director since 1981*

Richard H. Glanton
*Chairman
Philadelphia Television Network
Director since 1995*

Lon R. Greenberg
*Chairman
UGI Corporation
Director since 2005*

William P. Hankowsky
*Chairman, President and
Chief Executive Officer
Liberty Property Trust
Director since 2004*

Wendell F. Holland, Esq.
*Partner
CFSD Group, LLC
Director since 2011*

Mario Mele
*President
Fidelio Insurance Company and
Dental Delivery Systems, Inc.
Director since 2009*

Ellen T. Ruff
*Partner
McGuireWoods LLP
Director since 2006*

Andrew J. Sordoni, III
*Chairman
Sordoni Construction Services, Inc.
Director since 2006*

Officers

Nicholas DeBenedictis
*Chairman, President and
Chief Executive Officer*

Christopher H. Franklin
*Executive Vice President
President and Chief Operating
Officer, Regulated Operations*

Karl M. Kyriss
*Executive Vice President
President, Aqua Capital Ventures*

Christopher P. Luning
*Senior Vice President, General
Counsel and Secretary*

William C. Ross
*Senior Vice President,
Engineering and Environmental
Affairs*

Robert A. Rubin
*Senior Vice President
Controller and Chief Accounting
Officer*

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

AQUASM

Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010
877.987.2782
AquaAmerica.com
NYSE: WTR



AQUA TEXAS, INC
Unanimous Consent of Sole Shareholder
January 7, 2014

THE UNDERSIGNED, being the sole shareholder ("Shareholder") of **Aqua Texas, Inc.** ("Aqua Utilities"), a Texas corporation, in accordance with the authority contained in the Bylaws of Aqua Texas and the laws of the State of Texas, hereby consents in writing that the following Resolutions shall have the same force and effect as if adopted at a Special Meeting of the Shareholders of Aqua Texas, duly called and held in accordance with the law and the Bylaws of Aqua Texas:

WHEREAS, Aqua Texas entered into a Plan and Agreement of Transfer, dated April 29, 2010 ("2010 Agreement"), by which it acquired certain used or useful water and wastewater utility assets in the State of Texas from Aqua Utilities, Inc. ("Aqua Texas");

WHEREAS, after entering into the 2010 Agreement Aqua Utilities entered into a separate agreement to purchase the used or useful water and wastewater assets of Tommy J. Patterson d/b/a T & A Water ("T & A") and, consequently, the assets acquired from T & A were not included in the assets transferred pursuant to the 2010 Agreement;

WHEREAS, Aqua Utilities now desires to transfer to Aqua Texas, and Aqua Texas desires to acquire from the Aqua Utilities, all of the assets acquired from T & A that are used or useful in the provision of water service ("Water Service Business") within the State of Texas (the "Water Service Territory"); and

WHEREAS, Aqua Texas, Inc. is agreeing to assume sole and complete responsibility for the provision of water utility services associated with the use of the Assets;

NOW, THEREFORE, BE IT

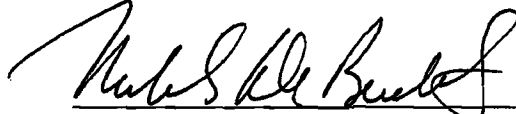
RESOLVED, the Plan and Agreement of Asset Transfer, dated December 27, 2013, between Aqua Utilities and Aqua Texas, which is attached hereto as **Exhibit A** as a "Plan of Reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the regulations there under, is approved and Aqua Texas is authorized to take such action that will cause the transfer to qualify as a reorganization under Section 368(a) (1) (A) of the Code; and it is

FURTHER RESOLVED, that the Officers of Aqua Texas are hereby authorized and empowered to do all things necessary to carry out the actions authorized by these Resolutions, including but not limited to the execution of all necessary and required

documents including, without limitation, the Plan and Agreement of Asset Transfer and a Bill of Sale;

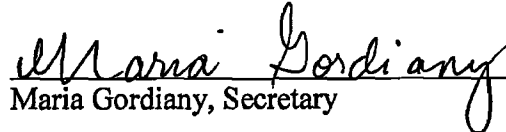
IN WITNESS WHEREOF, this Unanimous Consent of the Sole Shareholder has been executed as of the day and year set forth above.

AQUA AMERICA, INC.



Nicholas DeBenedictis, Chairman

FILED with the undersigned as Secretary of the Aqua Texas, Inc. as of the day and year set forth above.



Maria Gordiany, Secretary

EXHIBIT 'A'

AQUA TEXAS, INC.
Unanimous Consent of Directors
January 7, 2014

THE UNDERSIGNED, constituting all of the members of the Board of Directors of Aqua Texas, Inc. (the "Aqua Texas"), a Texas corporation, in accordance with the authority contained in the Bylaws of Aqua Texas and the laws of the State of Texas, do hereby consent in writing that the following Resolutions shall have the same force and effect as if adopted at a Special Meeting of the Board of Directors of Aqua Texas, duly called and held in accordance with the law and the Bylaws of Aqua Texas:

WHEREAS, Aqua Texas entered into a Plan and Agreement of Transfer, dated April 29, 2010 ("2010 Agreement"), by which it obtained certain used or useful water and wastewater utility assets in the State of Texas from Aqua Utilities, Inc. ("Aqua Utilities");

WHEREAS, after entering into the 2010 Agreement, Aqua Utilities entered into a separate agreement to purchase the used or useful water assets of Tommy J. Patterson d/b/a T & A Water ("T & A") and, consequently, the assets acquired from T & A were not included in the assets transferred pursuant to the 2010 Agreement;

WHEREAS, Aqua Utilities now desires to transfer to Aqua Texas, and Aqua Texas desires to acquire from Aqua Utilities, all of the assets acquired from T & A that are used or useful in the provision of water service ("Water Service Business") within the State of Texas (the "Water Service Territory"); and

WHEREAS, Aqua Texas is agreeing to assume sole and complete responsibility for the provision of water utility service associated with the use of the Assets;

NOW, THEREFORE, BE IT

RESOLVED, the Plan and Agreement of Asset Transfer, dated December 27, 2013, between Aqua Utilities and Aqua Texas, which is attached hereto as Exhibit A as a "Plan of Reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the regulations there under, is approved and Aqua Texas is authorized to take such action that will cause the transfer to qualify as a reorganization under Section 368(a)(1)(A) of the Code; and it is

FURTHER RESOLVED, that the Officers Aqua Texas are hereby authorized and empowered to do all things necessary to carry out the actions authorized by these Resolutions including, but not limited to, the execution of all necessary and required documents including, without limitation, the execution of the Plan and Agreement of Asset Transfer and a Bill of Sale.

IN WITNESS WHEREOF, this Unanimous Consent of the Directors has been executed as of the day and year set forth above.

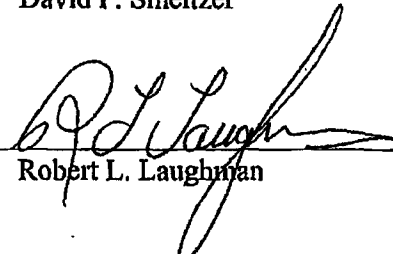
AQUA TEXAS, INC.

By: _____
Nicholas DeBenedictis, Chairman

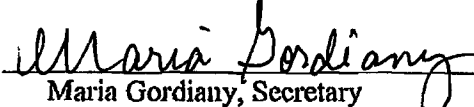
By: _____
Christopher H. Franklin

By: _____
Christopher P. Luning

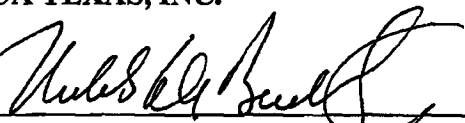
By: _____
David P. Smeltzer

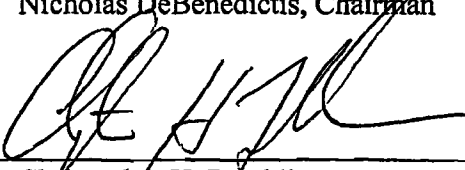
By: 
Robert L. Laughman

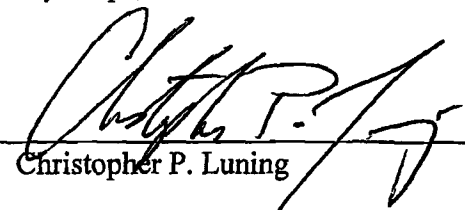
FILED with the undersigned as Secretary of Aqua Texas, Inc. as of the day and year set forth above.

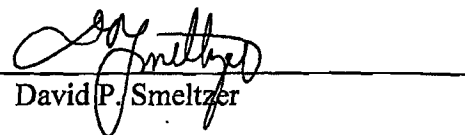

Maria Gordiany, Secretary

AQUA TEXAS, INC.

By: 
Nicholas DeBenedictis, Chairman

By: 
Christopher H. Franklin

By: 
Christopher P. Luning

By: 
David P. Smeltzer

By: _____
Robert L. Laughman

FILED with the undersigned as Secretary of Aqua Texas, Inc. as of the day and year set forth above.

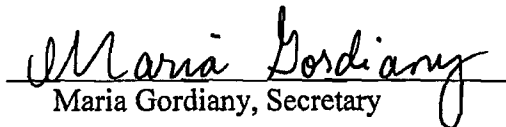

Maria Gordiany, Secretary

EXHIBIT 'A'

PLAN AND AGREEMENT OF ASSET TRANSFER
between
AQUA UTILITIES, INC.
and
AQUA TEXAS, INC.

January 7, 2014

THIS Plan and Agreement of Asset Transfer ("Plan of Transfer"), dated as of the 27th day of December, 2013 is made by and between, **Aqua Utilities, Inc.**, a Texas corporation ("Aqua Utilities"), and **Aqua Texas, Inc.**, a Texas corporation ("Aqua Texas")(collectively the "Parties").

WHEREAS, both Aqua Utilities and Aqua Texas are wholly owned subsidiaries of Aqua America, Inc., ("Ultimate Parent"), a Pennsylvania Corporation;

WHEREAS, by agreement dated April 29, 2010 ("2010 Agreement") Aqua Utilities agreed to transfer all the used or useful water and wastewater assets it then held to Aqua Texas and Aqua Texas agreed to accept those assets;

WHEREAS, after entering into the 2010 Agreement Aqua Utilities entered into a separate agreement to purchase the used or useful water assets of Tommy J. Patterson d/b/a T & A Water ("T & A") and, consequently, the assets acquired from T & A were not included in the assets transferred pursuant to the 2010 Agreement;

WHEREAS, Aqua Utilities now desires to transfer to Aqua Texas, and Aqua Texas desires to acquire from Aqua Utilities, all of the assets acquired from T & A that are used or useful in the provision of water service ("Water Service Business") within the State of Texas (the "Water Service Territory"); and

WHEREAS, Aqua Texas will assume all of the liabilities of the Water Service Business ("Assumed Liabilities") in exchange for the transfer of all of Aqua Utilities' assets within the Water Service Territory;

NOW THEREFORE, in consideration of the covenants made herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto, intending to be legally bound hereby, agree as follows:

1. In consideration of Aqua Texas' assuming all of Aqua Utilities' liabilities incurred in connection with the Water Service Business and to fully perform all of the obligations of Aqua Utilities related to the Water Service Business, Aqua Utilities will grant, convey, assign, transfer and deliver to Aqua Texas all of the assets (whether real or personal, tangible or intangible) which are located within the State of Texas and which are used or useful in the Water Service Business, as further described in a Bill of Sale, Assignment and Assumption Agreement and Quitclaim Deeds to be executed by Aqua Utilities.

2. Aqua Texas hereby agrees to acquire from Aqua Utilities all of the assets which are used and useful in Water Service Business within the Water Service Territory, to assume all liabilities incurred in connection with such Water Service Business and to

fully perform all of the obligations of Aqua Utilities related to the Water Service Business.

3. Each party shall execute and deliver, upon request, any further documentation and instruments, including but not limited to the Bill of Sale, Assignment and Assumption Agreement and the quitclaim deeds ("Closing Documents"), and shall do and perform any such acts, as may be reasonably necessary to give full effect to the intent of this Plan of Transfer.

4. This transaction shall be effective upon the date of its execution, but shall be contingent upon; 1) final approval of transactions covered within this Plan of Transfer by the Texas Commission on Environmental Quality; and 2) the approval of the Board of Directors of both Parties to this Plan of Transfer; and 3) the consent of the Sole Shareholder of both Parties to this Plan of Transfer.

5. The transactions necessary to execute this Plan of Transfer shall not become effective until after: (1) the Texas Commission on Environmental Quality ("TCEQ") provides approval to complete the transactions in accordance with TEX. WATER CODE §13.301; and (2) the Closing documents are formally executed. The effective date of the transactions shall be the date the Closing Documents are finally executed, but all the transactions shall be contingent upon final TCEQ approval in accordance with TEX. WATER CODE § 13.301. Further, the effectiveness of the transactions necessary to execute this Plan of Transfer shall be contingent upon Aqua Texas' receipt of all appropriate regulatory approvals required by law and necessary to effectively transfer the Company's permits and all assets that are used and useful in the Water Service Business.

6. This Plan and Agreement of Transfer shall be governed by the laws of the State of Texas and shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

7. This Plan and Agreement of Transfer may be executed in any number of counterparts, and all such counterparts and copies shall be and constitute one original instrument.

AQUA UTILITIES, INC.

AQUA TEXAS, INC.

By: _____

Name: Robert L. Laughman, President

By: _____

Name: Robert L. Laughman, President

AQUA UTILITIES, INC
Unanimous Consent of Sole Shareholder
January 7, 2014

THE UNDERSIGNED, being the sole shareholder ("Shareholder") of **Aqua Utilities, Inc.** ("Aqua Utilities"), a Texas corporation, in accordance with the authority contained in the Bylaws of Aqua Utilities and the laws of the State of Texas, hereby consents in writing that the following Resolutions shall have the same force and effect as if adopted at a Special Meeting of the Shareholders of Aqua Utilities, duly called and held in accordance with the law and the Bylaws of Aqua Utilities:

WHEREAS, Aqua Utilities entered into a Plan and Agreement of Transfer, dated April 29, 2010 ("2010 Agreement"), by which it transferred certain used or useful water and wastewater utility assets in the State of Texas to Aqua Texas, Inc. ("Aqua Texas");

WHEREAS, after entering into the 2010 Agreement Aqua Utilities entered into a separate agreement to purchase the used or useful water and wastewater assets of Tommy J. Patterson d/b/a T & A Water ("T & A") and, consequently, the assets acquired from T & A were not included in the assets transferred pursuant to the 2010 Agreement;

WHEREAS, Aqua Utilities now desires to transfer to Aqua Texas, and Aqua Texas desires to acquire from the Aqua Utilities, all of the assets acquired from T & A that are used or useful in the provision of water service ("Water Service Business") within the State of Texas (the "Water Service Territory"); and

WHEREAS, Aqua Texas, Inc. is agreeing to assume sole and complete responsibility for the provision of water utility services associated with the use of the Assets;

NOW, THEREFORE, BE IT

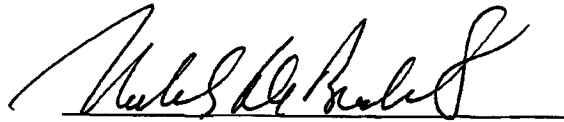
RESOLVED, the Plan and Agreement of Asset Transfer, dated December 27, 2013, between Aqua Utilities and Aqua Texas, which is attached hereto as **Exhibit A** as a "Plan of Reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the regulations there under, is approved and Aqua Utilities is authorized to take such action that will cause the transfer to qualify as a reorganization under Section 368(a) (1) (A) of the Code; and it is

FURTHER RESOLVED, that the Officers of Aqua Utilities are hereby authorized and empowered to do all things necessary to carry out the actions authorized by these Resolutions, including but not limited to the execution of all necessary and required

documents including, without limitation, the Plan and Agreement of Asset Transfer and a Bill of Sale;

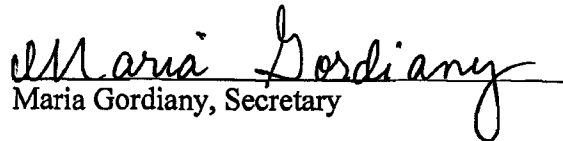
IN WITNESS WHEREOF, this Unanimous Consent of the Sole Shareholder has been executed as of the day and year set forth above.

AQUA AMERICA, INC.

A handwritten signature in black ink, appearing to read "Nicholas DeBenedictis", written over a horizontal line.

Nicholas DeBenedictis, Chairman

FILED with the undersigned as Secretary of the Aqua Utilities, Inc. as of the day and year set forth above.

A handwritten signature in black ink, appearing to read "Maria Gordiany", written over a horizontal line.

Maria Gordiany, Secretary

EXHIBIT 'A'

AQUA TEXAS, INC
Unanimous Consent of Sole Shareholder
January 7, 2014

THE UNDERSIGNED, being the sole shareholder ("Shareholder") of **Aqua Texas, Inc.** ("Aqua Utilities"), a Texas corporation, in accordance with the authority contained in the Bylaws of Aqua Texas and the laws of the State of Texas, hereby consents in writing that the following Resolutions shall have the same force and effect as if adopted at a Special Meeting of the Shareholders of Aqua Texas, duly called and held in accordance with the law and the Bylaws of Aqua Texas:

WHEREAS, Aqua Texas entered into a Plan and Agreement of Transfer, dated April 29, 2010 ("2010 Agreement"), by which it acquired certain used or useful water and wastewater utility assets in the State of Texas from Aqua Utilities, Inc. ("Aqua Texas");

WHEREAS, after entering into the 2010 Agreement Aqua Utilities entered into a separate agreement to purchase the used or useful water and wastewater assets of VLS, Inc. ("VLS") and, consequently, the assets acquired from VLS were not included in the assets transferred pursuant to the 2010 Agreement;

WHEREAS, Aqua Utilities now desires to transfer to Aqua Texas, and Aqua Texas desires to acquire from the Aqua Utilities, all of the assets acquired from VLS that are used or useful in the provision of water service ("Water Service Business") within the State of Texas (the "Water Service Territory"); and

WHEREAS, Aqua Texas, Inc. is agreeing to assume sole and complete responsibility for the provision of water utility services associated with the use of the Assets;

NOW, THEREFORE, BE IT

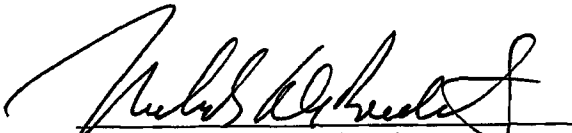
RESOLVED, the Plan and Agreement of Asset Transfer, dated December 27, 2013, between Aqua Utilities and Aqua Texas, which is attached hereto as **Exhibit A** as a "Plan of Reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the regulations there under, is approved and Aqua Texas is authorized to take such action that will cause the transfer to qualify as a reorganization under Section 368(a) (1) (A) of the Code; and it is

FURTHER RESOLVED, that the Officers of Aqua Texas are hereby authorized and empowered to do all things necessary to carry out the actions authorized by these Resolutions, including but not limited to the execution of all necessary and required

documents including, without limitation, the Plan and Agreement of Asset Transfer and a Bill of Sale;

IN WITNESS WHEREOF, this Unanimous Consent of the Sole Shareholder has been executed as of the day and year set forth above.

AQUA AMERICA, INC.


Nicholas DeBenedictis, Chairman

FILED with the undersigned as Secretary of the Aqua Texas, Inc. as of the day and year set forth above.



Maria Gordiany, Secretary

EXHIBIT 'A'

AQUA TEXAS, INC.
Unanimous Consent of Directors
January 7, 2014

THE UNDERSIGNED, constituting all of the members of the Board of Directors of Aqua Texas, Inc. (the "Aqua Texas"), a Texas corporation, in accordance with the authority contained in the Bylaws of Aqua Texas and the laws of the State of Texas, do hereby consent in writing that the following Resolutions shall have the same force and effect as if adopted at a Special Meeting of the Board of Directors of Aqua Texas, duly called and held in accordance with the law and the Bylaws of Aqua Texas:

WHEREAS, Aqua Texas entered into a Plan and Agreement of Transfer, dated April 29, 2010 ("2010 Agreement"), by which it obtained certain used or useful water and wastewater utility assets in the State of Texas from Aqua Utilities, Inc. ("Aqua Utilities");

WHEREAS, after entering into the 2010 Agreement, Aqua Utilities entered into a separate agreement to purchase the used or useful water assets of VLS, Inc. ("VLS") and, consequently, the assets acquired from VLS were not included in the assets transferred pursuant to the 2010 Agreement;

WHEREAS, Aqua Utilities now desires to transfer to Aqua Texas, and Aqua Texas desires to acquire from Aqua Utilities, all of the assets acquired from VLS that are used or useful in the provision of water service ("Water Service Business") within the State of Texas (the "Water Service Territory"); and

WHEREAS, Aqua Texas is agreeing to assume sole and complete responsibility for the provision of water utility service associated with the use of the Assets;

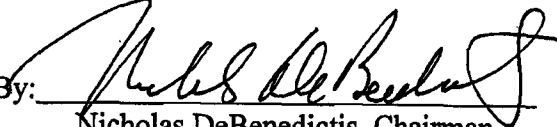
NOW, THEREFORE, BE IT

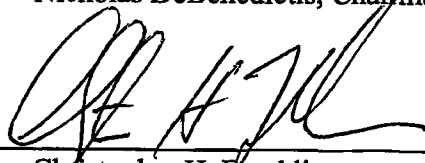
RESOLVED, the Plan and Agreement of Asset Transfer, dated December 27, 2013, between Aqua Utilities and Aqua Texas, which is attached hereto as Exhibit A as a "Plan of Reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the regulations there under, is approved and Aqua Texas is authorized to take such action that will cause the transfer to qualify as a reorganization under Section 368(a)(1)(A) of the Code; and it is

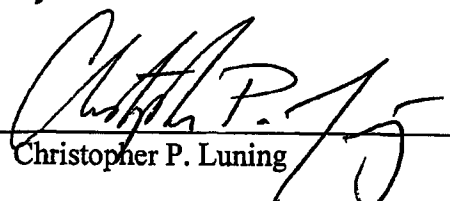
FURTHER RESOLVED, that the Officers Aqua Texas are hereby authorized and empowered to do all things necessary to carry out the actions authorized by these Resolutions including, but not limited to, the execution of all necessary and required documents including, without limitation, the execution of the Plan and Agreement of Asset Transfer and a Bill of Sale.

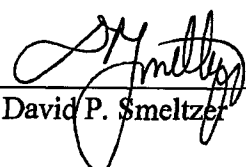
IN WITNESS WHEREOF, this Unanimous Consent of the Directors has been executed as of the day and year set forth above.

AQUA TEXAS, INC.

By: 
Nicholas DeBenedictis, Chairman

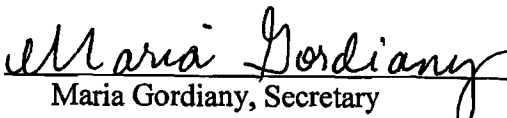
By: 
Christopher H. Franklin

By: 
Christopher P. Luning

By: 
David P. Smeltzer

By: _____
Robert L. Laughman

FILED with the undersigned as Secretary of Aqua Texas, Inc. as of the day and year set forth above.


Maria Gordiany, Secretary

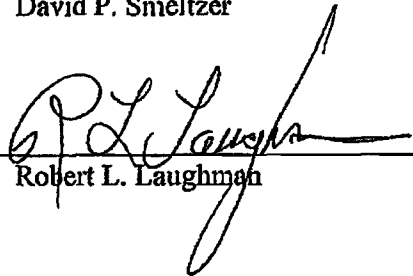
AQUA TEXAS, INC.

By: _____
Nicholas DeBenedictis, Chairman

By: _____
Christopher H. Franklin

By: _____
Christopher P. Luning

By: _____
David P. Smeltzer

By: 
Robert L. Laughman

FILED with the undersigned as Secretary of Aqua Texas, Inc. as of the day and year set forth above.

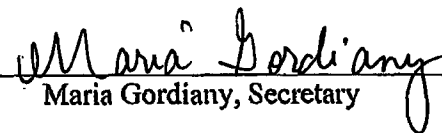

Maria Gordiany, Secretary

EXHIBIT 'A'

PLAN AND AGREEMENT OF ASSET TRANSFER

**between
AQUA UTILITIES, INC.
and
AQUA TEXAS, INC.**

January 7, 2014

THIS Plan and Agreement of Asset Transfer ("Plan of Transfer"), dated as of the 27th day of December, 2013 is made by and between, **Aqua Utilities, Inc.**, a Texas corporation ("Aqua Utilities"), and **Aqua Texas, Inc.**, a Texas corporation ("Aqua Texas")(collectively the "Parties").

WHEREAS, both Aqua Utilities and Aqua Texas are wholly owned subsidiaries of Aqua America, Inc., ("Ultimate Parent"), a Pennsylvania Corporation;

WHEREAS, by agreement dated April 29, 2010 ("2010 Agreement") Aqua Utilities agreed to transfer all the used or useful water and wastewater assets it then held to Aqua Texas and Aqua Texas agreed to accept those assets;

WHEREAS, after entering into the 2010 Agreement Aqua Utilities entered into a separate agreement to purchase the used or useful water assets of VLS, Inc. ("VLS") and, consequently, the assets acquired from VLS were not included in the assets transferred pursuant to the 2010 Agreement;

WHEREAS, Aqua Utilities now desires to transfer to Aqua Texas, and Aqua Texas desires to acquire from Aqua Utilities, all of the assets acquired from VLS that are used or useful in the provision of water service ("Water Service Business") within the State of Texas (the "Water Service Territory"); and

WHEREAS, Aqua Texas will assume all of the liabilities of the Water Service Business ("Assumed Liabilities") in exchange for the transfer of all of Aqua Utilities' assets within the Water Service Territory;

NOW THEREFORE, in consideration of the covenants made herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto, intending to be legally bound hereby, agree as follows:

1. In consideration of Aqua Texas' assuming all of Aqua Utilities' liabilities incurred in connection with the Water Service Business and to fully perform all of the obligations of Aqua Utilities related to the Water Service Business, Aqua Utilities will grant, convey, assign, transfer and deliver to Aqua Texas all of the assets (whether real or personal, tangible or intangible) which are located within the State of Texas and which are used or useful in the Water Service Business, as further described in a Bill of Sale, Assignment and Assumption Agreement and Quitclaim Deeds to be executed by Aqua Utilities.

2. Aqua Texas hereby agrees to acquire from Aqua Utilities all of the assets which are used and useful in Water Service Business within the Water Service Territory, to assume all liabilities incurred in connection with such Water Service Business and to

fully perform all of the obligations of Aqua Utilities related to the Water Service Business.

3. Each party shall execute and deliver, upon request, any further documentation and instruments, including but not limited to the Bill of Sale, Assignment and Assumption Agreement and the quitclaim deeds ("Closing Documents"), and shall do and perform any such acts, as may be reasonably necessary to give full effect to the intent of this Plan of Transfer.

4. This transaction shall be effective upon the date of its execution, but shall be contingent upon; 1) final approval of transactions covered within this Plan of Transfer by the Texas Commission on Environmental Quality; and 2) the approval of the Board of Directors of both Parties to this Plan of Transfer; and 3) the consent of the Sole Shareholder of both Parties to this Plan of Transfer.

5. The transactions necessary to execute this Plan of Transfer shall not become effective until after: (1) the Texas Commission on Environmental Quality ("TCEQ") provides approval to complete the transactions in accordance with TEX. WATER CODE §13.301; and (2) the Closing documents are formally executed. The effective date of the transactions shall be the date the Closing Documents are finally executed, but all the transactions shall be contingent upon final TCEQ approval in accordance with TEX. WATER CODE § 13.301. Further, the effectiveness of the transactions necessary to execute this Plan of Transfer shall be contingent upon Aqua Texas' receipt of all appropriate regulatory approvals required by law and necessary to effectively transfer the Company's permits and all assets that are used and useful in the Water Service Business.

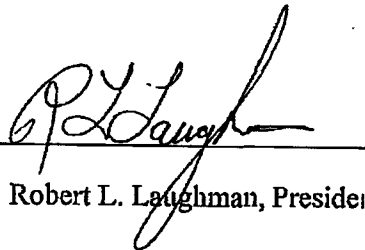
6. This Plan and Agreement of Transfer shall be governed by the laws of the State of Texas and shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

7. This Plan and Agreement of Transfer may be executed in any number of counterparts, and all such counterparts and copies shall be and constitute one original instrument.

AQUA UTILITIES, INC.

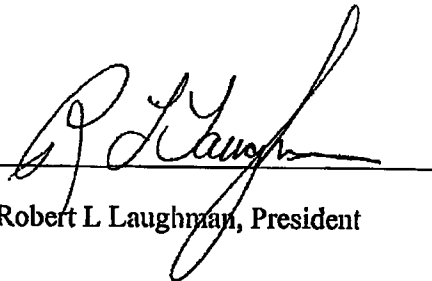
AQUA TEXAS, INC.

By:



Name: Robert L. Laughman, President

By:



Name: Robert L. Laughman, President

AQUA UTILITIES, INC
Unanimous Consent of Sole Shareholder
January 7, 2014

THE UNDERSIGNED, being the sole shareholder ("Shareholder") of **Aqua Utilities, Inc.** ("Aqua Utilities"), a Texas corporation, in accordance with the authority contained in the Bylaws of Aqua Utilities and the laws of the State of Texas, hereby consents in writing that the following Resolutions shall have the same force and effect as if adopted at a Special Meeting of the Shareholders of Aqua Utilities, duly called and held in accordance with the law and the Bylaws of Aqua Utilities:

WHEREAS, Aqua Utilities entered into a Plan and Agreement of Transfer, dated April 29, 2010 ("2010 Agreement"), by which it transferred certain used or useful water and wastewater utility assets in the State of Texas to Aqua Texas, Inc. ("Aqua Texas");

WHEREAS, after entering into the 2010 Agreement Aqua Utilities entered into a separate agreement to purchase the used or useful water and wastewater assets of VLS, Inc. ("VLS") and, consequently, the assets acquired from VLS were not included in the assets transferred pursuant to the 2010 Agreement;

WHEREAS, Aqua Utilities now desires to transfer to Aqua Texas, and Aqua Texas desires to acquire from the Aqua Utilities, all of the assets acquired from VLS that are used or useful in the provision of water service ("Water Service Business") within the State of Texas (the "Water Service Territory"); and

WHEREAS, Aqua Texas, Inc. is agreeing to assume sole and complete responsibility for the provision of water utility services associated with the use of the Assets;

NOW, THEREFORE, BE IT

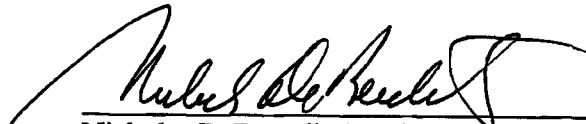
RESOLVED, the Plan and Agreement of Asset Transfer, dated December 27, 2013, between Aqua Utilities and Aqua Texas, which is attached hereto as **Exhibit A** as a "Plan of Reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the regulations there under, is approved and Aqua Utilities is authorized to take such action that will cause the transfer to qualify as a reorganization under Section 368(a) (1) (A) of the Code; and it is

FURTHER RESOLVED, that the Officers of Aqua Utilities are hereby authorized and empowered to do all things necessary to carry out the actions authorized by these Resolutions, including but not limited to the execution of all necessary and required

documents including, without limitation, the Plan and Agreement of Asset Transfer and a Bill of Sale;

IN WITNESS WHEREOF, this Unanimous Consent of the Sole Shareholder has been executed as of the day and year set forth above.

AQUA AMERICA; INC.



Nicholas DeBenedictis, Chairman

FILED with the undersigned as Secretary of the Aqua Utilities, Inc. as of the day and year set forth above.



Maria Gordiany, Secretary