



Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010

LETTER TO SHAREHOLDERS
www.aquaamerica.com

September 2009

Dear Shareholder:

Aqua America, Inc. is pleased to report that we will be **increasing the December 1, 2009 quarterly dividend payable to shareholders of record on November 16, 2009 by 7.4 percent to \$0.145 per share** (\$0.58 per share annualized). This will mark the nineteenth dividend increase in the last 18 years. The company will pay the regular \$0.135 per share quarterly common stock cash dividend on September 1, 2009 to shareholders of record on August 17, 2009.

For the quarter ending June 30, 2009, **net income rose to \$25.9 million from \$22.6 million in 2008, an increase of 15 percent**. Revenues for the quarter rose 11 percent to \$167.3 million from \$150.8 million in 2008. Corresponding diluted earnings per share for the year were \$0.19, compared to \$0.17 for 2008 on 1.4 percent more shares outstanding.

These positive results show the company's ability to continue to grow earnings, despite recent unfavorable weather and economic conditions. Rainfall and cooler weather lead to less water usage, and therefore less revenue. Despite these challenges, the company is on track to increase net income year-over-year for the tenth consecutive year, thanks to the successful efforts of Aqua America's management team to limit expense increases, recover capital investments through timely rate relief, and continue to acquire new water and wastewater systems.

In 2009, Aqua America has received rate awards that should increase annual operating revenues by \$27.2 million. The company currently has \$9.2 million in rate requests pending and expects to seek additional rate relief of approximately \$50 million by year-end. The timing and extent to which rate increases might be granted by the applicable regulatory agencies will vary by state.

The company remains on track to invest a record amount of capital - approximately \$315 million - in 2009. Our current capital expenditures remain focused on pipe replacement projects to improve our distribution network and service reliability, and plant upgrades to enhance water quality for our customers.

In July, the company's largest subsidiary, Aqua Pennsylvania, Inc. (Aqua) entered into an agreement to issue \$58 million in 30-year tax-exempt First Mortgage Bonds at 5.23 percent. **The bonds were rated by Standard and Poor's (S&P) at AA-**. Aqua has also received \$6.2 million in low interest loans (3.5 percent) from the Pennsylvania Infrastructure Investment Authority (PENNVEST) to make water quality improvements. Additionally, Aqua received \$4.6 million of State Revolving Loan Funds (SRLF) and American Recovery and Reinvestment Act of 2009 (ARRA) funding in Maine (including \$1.4 million of grants).

Aqua America continues to expand despite the economic slowdown and has completed 14 acquisitions of systems that provide water or wastewater service to approximately 13,000 people to date in 2009. These acquisitions include the Kratzerville Municipal Authority in central Pennsylvania, two water systems from the Lower Colorado River Authority (LCRA) in Texas, and the Lawrenceville Water Company in New Jersey. The Kratzerville acquisition demonstrates that municipal systems are considering privatization as they face increasing capital needs and more stringent environmental regulations.

Aqua America offers a commission-free dividend reinvestment and direct stock purchase plan (DRP) that allows shareholders to reinvest their dividends at a 5 percent discount to the market price. If you would like a prospectus and application for the DRP please visit www.aquaamerica.com or call 800.205.8314. Please read the prospectus carefully before you make a decision to invest.

Thank you,

Nicholas DeBenedictis
Chairman and President

AQUA AMERICA INC., AND SUBSIDIARIES

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME (Unaudited)**

(In thousands, except per share amounts)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Operating revenues	\$ 167,333	\$ 150,751	\$ 321,820	\$ 290,034
Cost & expenses:				
Operations and maintenance	68,549	65,146	135,538	129,450
Depreciation	24,972	20,619	51,359	42,100
Amortization	3,064	1,012	5,819	2,185
Taxes other than income taxes	11,884	10,845	23,474	22,954
Total	<u>108,469</u>	<u>97,622</u>	<u>216,190</u>	<u>196,689</u>
Operating income	58,864	53,129	105,630	93,345
Other expense (income):				
Interest expense, net	16,809	17,063	33,437	34,193
Allowance for funds used during construction	(568)	(1,100)	(1,193)	(2,056)
Gain on sale of other assets	(80)	(553)	(213)	(553)
Income before income taxes	42,703	37,719	73,599	61,761
Provision for income taxes	16,850	15,167	29,375	24,888
Net income attributable to common shareholders	<u>\$ 25,853</u>	<u>\$ 22,552</u>	<u>\$ 44,224</u>	<u>\$ 36,873</u>
Net income attributable to common shareholders	\$ 25,853	\$ 22,552	\$ 44,224	\$ 36,873
Other comprehensive income, net of tax:				
Unrealized holding gain on investments	232	189	269	189
Reclassification adjustment for losses reported in net income	5	-	5	-
Comprehensive income	<u>\$ 26,090</u>	<u>\$ 22,741</u>	<u>\$ 44,498</u>	<u>\$ 37,062</u>
Net income per common share:				
Basic	\$ 0.19	\$ 0.17	\$ 0.33	\$ 0.28
Diluted	\$ 0.19	\$ 0.17	\$ 0.33	\$ 0.28
Average common shares outstanding:				
Basic	<u>135,631</u>	<u>133,683</u>	<u>135,519</u>	<u>133,549</u>
Diluted	<u>135,939</u>	<u>134,060</u>	<u>135,880</u>	<u>133,998</u>

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands of dollars)

	June 30, 2009	December 31, 2008
Net property, plant and equipment	\$ 3,060,481	\$ 2,997,383
Current assets	122,530	121,041
Regulatory assets and other assets	347,253	379,521
	<u>\$ 3,530,264</u>	<u>\$ 3,497,945</u>
Total equity	\$ 1,077,723	\$ 1,060,627
Long-term debt, excluding current portion	1,227,744	1,248,104
Current portion of long-term debt and loans payable	124,737	87,886
Other current liabilities	81,035	105,285
Deferred credits and other liabilities	1,019,025	996,043
	<u>\$ 3,530,264</u>	<u>\$ 3,497,945</u>

This release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, among others, the timing and impact of pending and planned rate cases, the amount of future capital spending by the company, the effects of our capital investments on water quality and service to our customers, growth opportunities, the company's ability to grow earnings and the expected growth in net income, the ability to recover expense increases in rates and the benefits of acquisitions. There are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements including: general economic business conditions; housing and customer growth trends; unfavorable weather conditions; the success of certain cost containment initiatives; the extent to which rate increase requests are granted and the timing of rate awards; changes in regulations or regulatory treatment; availability and the cost of capital; disruptions in the credit markets; the success of growth initiatives; and other factors discussed in our Annual Report on Form 10-K, which is on file with the SEC. We undertake no obligation to publicly update or revise any forward-looking statement.