AQUA AMERICA INC
Form 424B5
August 11, 2006

Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-130400

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered (2)	Maximum Offering Price Per Share	Maximum Aggregate Offering Price (2)	Amount of Registration Fee (3)
Common stock, par value $0.50 per share (1)	4,025,000	$ 22.65	$91,166,250	$ 9,755

(1) Includes associated rights to purchase shares of our Series A Junior Participating Preferred Stock pursuant to that certain First Amended and Restated Rights Agreement between us and Equiserve Trust Company, N.A., dated as of February 20, 2004.

(2) Includes 525,000 shares of common stock that may be purchased by the underwriters upon the exercise of the underwriters over-allotment option.

(3) The filing fee for the securities offered hereby has been satisfied, in part, by applying, pursuant to Rule 457(p) promulgated under the Securities Act of 1933, the $1,466 unutilized registration fee previously paid by us in connection with the Registration Statement we filed on April 3, 2003 (Registration No. 333-104290).

Table of Contents

PROSPECTUS SUPPLEMENT

(To Prospectus dated December 16, 2005)

3,500,000 Shares
Aqua America, Inc.
Common Stock

We are offering 500,000 shares of our common stock. In addition, UBS AG, whom we refer to as the forward purchaser, or an affiliate of the forward purchaser, is, at our request, borrowing and delivering to the underwriters for sale an aggregate of 3,000,000 shares of our common stock in connection with a forward sale agreement between us and the forward purchaser. If the forward purchaser (or an affiliate thereof) is unable to borrow, or unable to borrow at a cost not greater than a specified threshold, and deliver for sale on the anticipated closing date of the offering, all or a portion of the number of shares of our common stock to which the forward sale agreement relates, we will sell the shares of common stock that the forward purchaser (or its affiliate) does not borrow and sell. We will not receive any proceeds from the sale of the shares by the forward purchaser or its affiliate. See Underwriting Forward Sale Agreement for a description of the forward sale agreement.

Our common stock is listed on the New York Stock Exchange and the Philadelphia Stock Exchange under the symbol WTR . The last sale price of our common stock on the New York Stock Exchange on August 10, 2006 was $22.75 per share.

Investing in our common stock involves risks. Before buying any shares, you should read the discussion of material risks of investing in our common stock in Risk factors on page S-5 of this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2005, which update the Risk factors beginning on page 5 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	$ 22.650	$ 79,275,000
Underwriting discounts and commissions(1)	$ 0.793	$ 2,775,500
Proceeds, before expenses, to us(1)	$ 21.857	$ 76,499,500

(1) We will receive net proceeds, before expenses, of approximately $10,928,500 upon closing of the sale of the common stock being offered by us in this offering. With respect to the common stock being offered by the forward purchaser (or an affiliate thereof) in this offering, depending on the price of our common stock at the time of settlement of the forward sale agreement and the relevant settlement method, we may receive proceeds from the sale of common stock upon settlement, which settlement must occur no later than August 1, 2008 (such date subject to deferral in certain limited circumstances). For purposes of calculating the proceeds to us with respect to the common stock being offered by the forward purchaser (or an affiliate thereof), we have assumed that the forward sale agreement is physically settled based upon the initial forward sale price of $21.857 on the effective date of the forward sale agreement, which will be August 10, 2006. The actual proceeds are subject to the final settlement of the forward sale agreement. See Underwriting Forward Sale Agreement for a description of the forward sale agreement.

The forward purchaser has granted the underwriters an option to purchase up to an additional 525,000 shares of common stock to cover over-allotments. If, in connection with the exercise of such option, the forward purchaser (or

an affiliate thereof) is unable to borrow, or unable to borrow at a cost not greater than a specified threshold, and deliver for sale on the anticipated closing date for the exercise of such option, all or a portion of the shares of our common stock with respect to which such option has been exercised, we will sell the shares of common stock that the forward purchaser (or its affiliate) does not borrow and sell.

The underwriters are offering the shares of our common stock as set forth under Underwriting. Delivery of the shares of common stock will be made on or about August 16, 2006.

Sole Book-Running Manager

UBS Investment Bank

A.G. Edwards **Janney Montgomery Scott LLC**

The date of this prospectus supplement is August 10, 2006.

TABLE OF CONTENTS

	Page
Prospectus Supplement	
Forward-looking statements	**S-iii**
Summary information	**S-1**
Risk factors	**S-5**
Use of proceeds	**S-6**
Price range of common stock and dividends	**S-7**
Underwriting	**S-9**
Legal matters	**S-15**
Experts	**S-15**
Prospectus	
About this prospectus	**1**
Forward-looking statements	**2**
Aqua America, Inc.	**4**
Risk factors	**5**
Use of proceeds	**8**
Certain ratios	**8**
Description of capital stock	**9**
Description of depository shares	**12**
Description of debt securities	**12**
Description of common stock purchase contracts and common stock purchase units	**21**
Where you can find more information	**22**
Legal matters	**23**
Experts	**23**

Table of Contents

Important notice about information in this prospectus supplement and the accompanying prospectus

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference in the accompanying prospectus. We have not, and the underwriters and the forward purchaser have not, authorized anyone to provide you with different information. We are not, and the underwriters and the forward purchaser are not making an offer of the shares of common stock in any jurisdiction where the offer or sale is not permitted. You should not assume that the information provided by this prospectus supplement or the accompanying prospectus or the information we have previously filed with the Securities and Exchange Commission that is incorporated by reference in the accompanying prospectus is accurate as of any date other than their respective dates.

We provide information to you about this offering of shares of our common stock in two parts. The first part is this prospectus supplement, which describes the specific details regarding this offering. The second part is the accompanying prospectus, which provides general information, some of which may not apply to this offering. The accompanying prospectus refers to additional documents we have filed, and may file in the future with the Securities and Exchange Commission, which are incorporated by reference in the accompanying prospectus. For purposes of this offering, references to the accompanying prospectus also refer to the documents incorporated by reference therein, including our Annual Report on Form 10-K for the year ended December 31, 2005 (including portions of our 2005 Annual Report to Shareholders and our definitive Proxy Statement for the 2006 Annual Meeting of Shareholders incorporated by reference therein), our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006, and our Current Reports on Form 8-K filed on March 13, 2006, May 22, 2006, June 8, 2006, June 28, 2006 and August 2, 2006, filed with the Securities and Exchange Commission prior to the completion of this offering. If information in this prospectus supplement is inconsistent with information in the accompanying prospectus, you should rely on this prospectus supplement.

For purposes of this prospectus supplement and the accompanying prospectus, when we refer to us, we, our, ours, o the Company, we are describing Aqua America, Inc. and its direct and indirect subsidiaries, unless the context suggests otherwise.

Table of Contents

Forward-looking statements

Certain statements contained, or incorporated by reference, in this prospectus supplement or the accompanying prospectus are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 made based upon, among other things, our current assumptions, expectations and beliefs concerning future developments and their potential effect on us. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control, that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words believes, expects, anticipates, plans or similar expressions.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in the accompanying prospectus completely and with the understanding that our actual future results may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of the applicable document. Except for our ongoing obligations to disclose material information under the federal securities laws, we may not be obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by the cautionary statements set forth on pages 2 and 3 of the accompanying prospectus.

Table of Contents

Summary information

This summary highlights material information contained elsewhere in this prospectus supplement and contained or incorporated by reference in the accompanying prospectus. Because it is a summary, it may not contain all of the information that may be important to you. Before making an investment decision, you should read carefully this entire prospectus supplement, the accompanying prospectus as well as documents incorporated by reference therein. As you read these documents, you should pay particular attention to the information in Risk factors beginning on page S-5 of this prospectus supplement and included in our Annual Report on Form 10-K for the year ended December 31, 2005, which update the Risk factors beginning on page 5 of the accompanying prospectus. Unless otherwise indicated, the information in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option.

AQUA AMERICA, INC.

Aqua America, Inc. is the holding company for regulated utilities providing water or wastewater services to what we estimate to be more than 2.5 million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Virginia, Maine, Missouri, New York and South Carolina. Our largest operating subsidiary provides water or wastewater services to approximately one-half of the total number of people we serve, located in the suburban areas north and west of the City of Philadelphia and in 22 other counties in Pennsylvania. Our other subsidiaries provide similar services in 12 other states. In addition, we provide water and wastewater services through operating and maintenance contracts with municipal authorities and other parties, and septage hauling services, close to our operating companies service territories. We are the largest U.S.-based publicly-traded water and wastewater utility based on number of people served.

Our principal executive office is located at 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3489, and our telephone number is 610-527-8000.

Table of Contents

The offering

We are offering 500,000 shares of our common stock, and the forward purchaser (or an affiliate thereof) is offering 3,000,000 shares of our common stock in connection with the execution of the forward sale agreement between us and the forward purchaser. If the forward purchaser (or an affiliate thereof) is unable to borrow, or unable to borrow at a cost not greater than a specified threshold, and deliver for sale to the underwriters all or a portion of the 3,000,000 shares of our common stock that the forward purchaser (or an affiliate thereof) is offering, we will sell the shares of our common stock that the forward purchaser (or its affiliate) does not borrow and deliver for sale. See Underwriting Forward Sale Agreement.

Issuer	Aqua America, Inc.
Common stock offered by us	500,000 shares of common stock
Common stock offered by the forward purchaser (or an affiliate thereof)	3,000,000 shares of common stock (and an additional 525,000 shares of common stock if the underwriters exercise their over-allotment option in full)
Common stock to be outstanding immediately after this offering (which excludes any shares of common stock to be issued upon settlement of the forward sale agreement)	131,908,815 shares[(1),(2)]
Common stock to be outstanding after settlement of the forward sale agreement assuming physical settlement	134,908,815 shares[(2),(3)]
Current indicated annual dividend per share	$0.46[(4)]
Current dividends paid since	1944
Use of proceeds	We will receive approximately $10,686,500 in net proceeds from the sale of the common stock we are offering pursuant to this prospectus supplement, after deducting underwriting discounts and commissions and our estimated offering expenses. We will not receive any proceeds from the sale of the shares of common stock offered by the forward purchaser (or its affiliate) pursuant to this prospectus supplement, unless an event occurs that requires us to sell our common stock to the underwriters in lieu of the forward purchaser (or its affiliate) selling our common stock to the underwriters. Depending on the price of our common stock at the time of settlement and the relevant settlement method, we may receive proceeds from the sale of common stock upon settlement of the forward sale agreement, which settlement must occur no later than August 1, 2008 (such date subject to deferral in certain limited circumstances). See Underwriting Forward Sale Agreement for a description of the forward sale agreement.

Table of Contents

	We intend to use the net proceeds that we receive from the sale of the common stock we are offering pursuant to this prospectus supplement and any proceeds that we receive upon settlement of the forward sale agreement to fund our capital expenditure program and any acquisition opportunities, and for working capital and other general corporate purposes. In addition, if an event occurs that requires us to sell our common stock to the underwriters in lieu of the forward purchaser (or its affiliate) selling our common stock to the underwriters, we intend to use any net proceeds we receive from such sale for the same purposes. See Underwriting Forward Sale Agreement.
Accounting treatment for the forward sale agreement	Before the issuance of our common stock upon settlement of the forward sale agreement, the forward sale agreement will be reflected in our diluted earnings per share calculations using the treasury stock method. Under this method, the number of shares of our common stock used in calculating diluted earnings per share is deemed to be increased by the excess, if any, of the number of shares that would be issued upon physical settlement of the forward sale agreement over the number of shares that could be purchased by us in the market (based on the average market price during the period) using the proceeds receivable upon settlement (based on the adjusted forward sale price at the end of the reporting period). Consequently, we anticipate there will be no dilutive effect on our earnings per share except during periods when the average market price of our common stock is above the per share adjusted forward sale price, which is initially $21.857 (which is the public offering price less the underwriting discounts and commissions shown on the cover page of this prospectus supplement), subject to adjustment based on the federal funds rate less a spread, and subject to decrease by $0.115 on each of August 18, 2006, November 17, 2006, February 15, 2007 and May 18, 2007 and by $0.125 on each of August 17, 2007, November 16, 2007, February 15, 2008 and May 16, 2008.
New York Stock Exchange and Philadelphia Stock Exchange market symbol	WTR

(1) The Common stock to be outstanding immediately after this offering (which excludes any shares of common stock to be issued upon settlement of the forward sale agreement) is based on 131,408,815 shares outstanding as of August 2, 2006.

(2) This amount assumes that no event occurs that requires us to sell our common stock to the underwriters in lieu of the forward purchaser (or its affiliate) selling our common stock to the underwriters.

(3) The forward purchaser has advised us that it or its affiliate intends to acquire shares of common stock to be sold under this prospectus supplement through borrowings from stock lenders. Subject to the occurrence of certain events, we will not be obligated to deliver shares of common stock, if any, under the forward sale agreement until final settlement of the forward sale agreement.

Table of Contents

Except in certain circumstances, we have the right to elect physical, cash or net stock settlement under the forward sale agreement. We cannot be required to net cash settle under the forward sale agreement. See Underwriting Forward Sale Agreement for a description of the forward sale agreement. The Common stock to be outstanding after settlement of the forward sale agreement assuming physical settlement is based on 131,408,815 shares outstanding as of August 2, 2006.

(4) On August 1, 2006, our Board of Directors approved a 7.6% increase in our quarterly cash dividend payable on September 1, 2006 to shareholders of record on August 18, 2006 from $0.1069 per share, or $0.4276 per share on an annualized basis, to $0.115 per share, or $0.46 per share on an annualized basis. Purchasers of shares in this offering who remain holders on August 18, 2006 will be entitled to receive this dividend.

Unless otherwise indicated, the information in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option. See Underwriting Forward Sale Agreement for a description of the forward sale agreement.

RISK FACTORS

Investing in our common stock involves risks. Before buying any shares, you should read the discussion of material risks of investing in our common stock in Risk factors on page S-5 of this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2005, which update the Risk factors beginning on page 5 of the accompanying prospectus.

Table of Contents

Risk factors

In addition to the other information contained in this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein, including the matters listed under Risk factors and Forward-looking statements, prospective investors should consider carefully the following factor before investing in the common stock.

Settlement provisions contained in the forward sale agreement subject us to certain risks.

The forward purchaser will have the right to require us to physically settle the forward sale agreement on a date specified by the forward purchaser in certain events, including (a) if the average of the closing bid and offer price or, if available, the closing sale price of our common stock is less than or equal to $10.00 per share on any trading day, (b) if our board of directors votes to approve, or there is a public announcement of, in either case, an action that, if consummated, would result in a merger or other takeover event of our company, (c) if we declare any cash dividend or distribution above a specified threshold, or any non-cash dividend or distribution (other than a dividend or distribution of shares of our common stock), in either case, on shares of our common stock and set a record date for payment for such dividend or distribution on or prior to the final settlement date, (d) if the forward purchaser (or an affiliate thereof) is unable to continue to borrow a number of shares of our common stock equal to the number of shares underlying the forward sale agreement, (e) if the cost of borrowing the common stock has increased above a specified amount, (f) if a nationalization, delisting or change in law occurs, each as defined in the forward sale agreement or (g) in connection with certain events of default and termination events under the deemed master agreement governing such forward sale agreement. In the event that early settlement of the forward sale agreement occurs as a result of any of the foregoing events, we will be required to physically settle the forward sale agreement by delivering shares of our common stock. The forward purchaser s decision to exercise its right to require us to settle the forward sale agreement will be made irrespective of our need for capital. In the event that we elect, or are required, to settle the forward sale agreement with shares of our common stock, delivery of such shares would likely result in dilution to our earnings per share and return on equity.

In addition, upon certain events of bankruptcy, insolvency or reorganization relating to us, the forward sale agreement will terminate without further liability of either party. Following any such termination, we would not issue any shares, and we would not receive any proceeds pursuant to the forward sale agreement.

Except under the circumstances described above, we have the right to elect physical, cash or net stock settlement under the forward sale agreement. If we elect cash or net stock settlement, we would expect the forward purchaser (or an affiliate thereof) to purchase in the open market the number of shares necessary, based upon the portion of the forward sale agreement that we have elected to so settle, to return to stock lenders the shares of our common stock that the forward purchaser (or its affiliate) has borrowed in connection with the sale of our common stock under this prospectus supplement and, if applicable in connection with net stock settlement, to deliver shares to us. If the market value of our common stock at the time of these purchases is above the forward price at that time, we would pay, or deliver, as the case may be, to the forward purchaser under the forward sale agreement an amount of cash, or common stock with a value, equal to this difference. Any such difference could be significant. If the market value of our common stock at the time of these purchases is below the forward price at that time, we would be paid this difference in cash by, or we would receive the value of this difference in common stock from, the forward purchaser (or its affiliate) under the forward sale agreement, as the case may be. See Underwriting Forward Sale Agreement.

Table of Contents

Use of proceeds

We will receive approximately $10,686,500 in net proceeds from the sale of the common stock we are offering pursuant to this prospectus supplement, after deducting underwriting discounts and commissions and our estimated offering expenses. We will not receive any proceeds from the sale of the shares of common stock offered by the forward purchaser (or its affiliate) pursuant to this prospectus supplement, unless an event occurs that requires us to sell our common stock to the underwriters in lieu of the forward purchaser (or its affiliate) selling our common stock to the underwriters. Depending on the price of our common stock at the time of settlement and the relevant settlement method, we may receive proceeds from the sale of common stock upon settlement of the forward sale agreement, which settlement must occur no later than August 1, 2008 (such date subject to deferral in certain limited circumstances).

We intend to use the net proceeds that we receive from the sale of the common stock we are offering pursuant to this prospectus supplement and any proceeds that we receive upon settlement of the forward sale agreement to fund our capital expenditure program and any acquisition opportunities, and for working capital and other general corporate purposes. In addition, if an event occurs that requires us to sell our common stock to the underwriters in lieu of the forward purchaser (or its affiliate) selling our common stock to the underwriters, we intend to use any net proceeds we receive from such sale for the same purposes. See Underwriting Forward Sale Agreement.

Table of Contents

Price range of common stock and dividends

PRICE RANGE OF COMMON STOCK

The following table shows the high and low intraday sales prices for our common stock as reported on the New York Stock Exchange composite transactions reporting system and the cash dividends per share paid for the periods indicated. Our common stock is listed on the New York Stock Exchange and the Philadelphia Stock Exchange under the symbol WTR .

	Common stock		
	High	**Low**	**Dividends**
Year Ended December 31, 2004			
First Quarter	$ 17.14	$ 15.00	$ .0900
Second Quarter	16.47	14.24	.0900
Third Quarter	16.67	14.18	.0900
Fourth Quarter	18.48	15.58	.0975
Year Ended December 31, 2005			
First Quarter	$ 19.37	$ 17.49	$ .0975
Second Quarter	23.24	18.03	.0975
Third Quarter	29.15	21.61	.0975
Fourth Quarter	29.22	22.88	.1069
Year Ended December 31, 2006			
First Quarter	$ 29.79	$ 26.50	$ .1069
Second Quarter	27.82	20.13	.1069
Third Quarter (through August 10, 2006)	23.44	21.13	(1)

(1) The third quarter dividend payment of $0.115 per share was declared on August 1, 2006 and will be paid on September 1, 2006 to holders of record on August 18, 2006.

On August 10, 2006, the last reported sale price of our common stock on the New York Stock Exchange composite transactions reporting system was $22.75 per share. As of August 2, 2006, there were approximately 28,023 holders of record of our common stock.

DIVIDEND POLICY

On August 1, 2006, our Board of Directors approved a 7.6% increase in our quarterly cash dividend from $0.1069 per share to $0.115 per share effective with the September 1, 2006 dividend payment to shareholders of record on August 18, 2006. This represents an increase in the dividend rate on an annualized basis from $0.4276 per share to $0.46 per share effective with the September 1, 2006 dividend payment. The increase in the September 1, 2006 dividend is the 16th increase to our dividend payment that the Board approved in the past 15 years.

The share and per share data, including the dividend data, contained in this prospectus supplement have been restated to give effect to the 4-for-3 common stock split effected in December 2005 in the form of a 33 1/3 % stock distribution for all common shares outstanding.

We or our predecessor companies have paid dividends each year since 1944. We presently intend to pay quarterly cash dividends in the future on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, regulatory requirements and such other factors as our Board of Directors may deem relevant.

Table of Contents

Price range of common stock and dividends

We offer holders of record of less than 100,000 shares of our common stock the opportunity to reinvest part or all of the dividend payments on their shares of common stock through purchases of original issue common stock without payment of any brokerage commission or service charge through our dividend reinvestment and direct stock purchase plan. The purchase price for original issue shares of common stock purchased through the reinvestment of dividends is 95% of the average of the high and low prices of common stock as reported on the New York Stock Exchange composite transactions reporting system for each of the five trading days immediately preceding the dividend payment date. This plan also permits shareholders and investors to invest up to $250,000 annually in our common stock in the open market through our transfer agent. At June 1, 2006, holders of 16.2% of our outstanding shares of common stock participated in the dividend reinvestment portion of this plan.

Table of Contents

Underwriting

In this offering, we are offering 500,000 shares of our common stock, and the forward purchaser (or an affiliate thereof) is, at our request, borrowing and offering 3,000,000 shares of our common stock in connection with the execution of the forward sale agreement between us and the forward purchaser. UBS Securities LLC is acting as representative of each of the underwriters named below and as agent of the forward purchaser. Subject to the terms and conditions set forth in the underwriting agreement, dated August 10, 2006, among us, the forward purchaser and the underwriters, we and the forward purchaser have agreed to sell to the underwriters, and the underwriters have severally agreed to purchase from us and the forward purchaser (or an affiliate thereof), the respective number of shares listed opposite their names below.

Underwriter	**Number of shares**
UBS Securities LLC	2,275,000
A.G. Edwards & Sons, Inc.	612,500
Janney Montgomery Scott LLC	612,500
Total	3,500,000

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We have agreed to indemnify the underwriters and the forward purchaser against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters or the forward purchaser may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officers certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

FORWARD SALE AGREEMENT

We will enter into a forward sale agreement on the date of this prospectus supplement with an affiliate of UBS Securities LLC, which affiliate we refer to as the forward purchaser, relating to 3,000,000 shares of our common stock. The forward purchaser or its affiliate is borrowing and offering 3,000,000 shares of our common stock to hedge its obligations under the forward sale agreement.

If the forward purchaser (or an affiliate thereof) under the forward sale agreement is unable to borrow, or unable to borrow at a cost not greater than a specified threshold, and deliver for sale on the anticipated closing date of the offering all or a portion of the shares of our common stock to which such agreement relates, then the number of shares of our common stock to which such agreement relates will be reduced to the number that the forward purchaser (or its affiliate) can so borrow and deliver. If the forward purchaser (or an affiliate thereof) under the forward sale agreement is unable to borrow, or unable to borrow at a cost not greater than a specified threshold, and deliver for sale on the anticipated closing date of the offering any shares of our common stock, then such agreement will be terminated in its entirety. In the event that the number of shares relating to the forward sale agreement is so reduced, or the forward sale agreement is so terminated, we will issue

Table of Contents

Underwriting

directly to the underwriters in accordance with the underwriting agreement a number of shares of our common stock equal to the number of shares not borrowed and delivered by the forward purchaser (or an affiliate thereof), so that the total number of shares offered in this offering is not reduced. In such event, the underwriters will have the right to postpone the closing date for one day to effect any necessary changes to any documents or arrangements in connection with such closing.

The forward sale agreement provides for settlement on a settlement date or dates to be specified at our discretion no later than August 1, 2008 (such date subject to deferral in certain limited circumstances) at an initial forward sale price of $21.857 per share, which is the public offering price of our shares of common stock less underwriting discounts and commissions. The forward sale agreement provides that the initial forward sale price will be subject to adjustment based on the federal funds rate less a spread, and subject to decrease by $0.115 on each of August 18, 2006, November 17, 2006, February 15, 2007 and May 18, 2007 and by $0.125 on each of August 17, 2007, November 16, 2007, February 15, 2008 and May 16, 2008.

Subject to the provisions of the forward sale agreement, we will receive an amount equal to the net proceeds from the sale of the borrowed shares of our common stock sold in this offering, plus interest based on the federal funds rate less a spread, less a reduction of $0.115 on each of August 18, 2006, November 17, 2006, February 15, 2007 and May 18, 2007 and $0.125 on each of August 17, 2007, November 16, 2007, February 15, 2008 and May 16, 2008, respectively, from the forward purchaser upon settlement of the forward sale agreement if we elect to physically settle the forward sale agreement entirely with our common stock.

The forward purchaser will have the right to accelerate the respective forward sale agreement and require us to physically settle such forward sale agreement on a date specified by the forward purchaser in certain events, including (a) if the average of the closing bid and offer price or, if available, the closing sale price of our common stock is less than or equal to $10.00 per share on any trading day, (b) if our board of directors votes to approve, or there is a public announcement of, in either case, an action that, if consummated, would result in a merger or other takeover event of our company, (c) if we declare any cash dividend or distribution above a specified threshold or any non-cash dividend or distribution (other than a dividend or distribution of shares of our common stock), in either case, on shares of our common stock and set a record date for payment for such dividend or distribution on or prior to the final settlement date, (d) if such forward purchaser (or an affiliate thereof) is unable to continue to borrow a number of shares of our common stock equal to the number of shares underlying the forward sale agreement, (e) if the cost of borrowing the common stock has increased above a specified amount, (f) if a nationalization, delisting or change in law occurs, each as defined in the forward sale agreement, or (g) in connection with certain events of default and termination events under the deemed master agreement governing such forward sale agreement. In the event that early settlement of the forward sale agreement occurs as a result of any of the foregoing events, we will be required to physically settle the forward sale agreement by delivering shares of our common stock.

In addition, upon certain events of bankruptcy, insolvency or reorganization relating to us, the forward sale agreement will terminate without further liability of either party. Following any such termination, we would not issue any shares, and we would not receive any proceeds pursuant to the forward sale agreement.

Except as described above, in addition to physical settlement, we also generally have the right to elect cash or net stock settlement under the forward sale agreement. If we elect cash or net stock settlement, the forward purchaser or an affiliate thereof will purchase shares of our common stock in secondary market transactions over a period of time for delivery to stock lenders in order to unwind its hedge and, if applicable in connection with net stock settlement, to deliver shares to us. In the event that we

Table of Contents

Underwriting

elect to cash or net stock settle, and if the price of our common stock at which the forward purchaser (or its affiliate) unwinds its hedge exceeds the forward sale price at the time, we will pay the forward purchaser under the forward sale agreement an amount in cash, if we cash settle, equal to such difference, or deliver a number of shares of our common stock, if we net stock settle, having a market value equal to such difference. Conversely, if we elect to cash or net stock settle and the price of our common stock at which the forward purchaser (or its affiliate) unwinds its hedge is below the forward sale price at the time, the forward purchaser (or its affiliate) under the forward sale agreement will pay to us an amount in cash, if we cash settle, equal to such difference, or deliver a number of shares of our common stock, if we net stock settle, having a market value equal to such difference.

Before the issuance of our common stock upon settlement of the forward sale agreement, the forward sale agreement will be reflected in our diluted earnings per share calculations using the treasury stock method. Under this method, the number of shares of our common stock used in calculating diluted earnings per share is deemed to be increased by the excess, if any, of the number of shares that would be issued upon physical settlement of the forward sale agreement over the number of shares that could be purchased by us in the market (based on the average market price during the period) using the proceeds receivable upon settlement (based on the adjusted forward sale price at the end of the reporting period). Consequently, we anticipate there will be no dilutive effect on our earnings per share except during periods when the average market price of our common stock is above the per share adjusted forward sale price, which is initially $21.857 (which is the public offering price less the underwriting discounts and commissions shown on the cover page of this prospectus supplement), subject to adjustment based on the federal funds rate less a spread, and subject to decrease by $0.115 on each of August 18, 2006, November 17, 2006, February 15, 2007 and May 18, 2007 and by $0.125 on each of August 17, 2007, November 16, 2007, February 15, 2008 and May 16, 2008.

DISCOUNTS AND COMMISSIONS

The underwriters have advised us and the forward purchaser that they propose initially to offer the shares of common stock to the public at the public offering price specified on the cover page of this prospectus supplement and to selling group members at that price less a selling concession not in excess of $0.470 per share. The underwriters may allow, and such selling group members may reallow, a discount not in excess of $0.10 per share to certain other dealers. After the offering, the public offering price and concession and discount terms may be changed.

The following table summarizes the public offering price, underwriting compensation, estimated expenses and proceeds, after expenses, to us in connection with this offering:

	Per share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Public offering price	$ 22.650	$ 22.650	$ 79,275,000	$ 91,166,250
Underwriting discounts and commissions	$ 0.793	$ 0.793	$ 2,775,500	$ 3,191,825
Expenses payable by us	$ 0.069	$ 0.060	$ 242,000	$ 242,000
Proceeds, after expenses, to us	$ 21.788	$ 21.797	$ 76,257,500	$ 87,732,425

The information assumes (a) either no exercise or full exercise by the underwriters of the over-allotment option, and (b) that the forward sale agreement is physically settled based upon the aggregate initial forward sale price and by the delivery of 3,000,000 shares of our common stock. We will receive approximately $10,686,500 in net proceeds from the sale of the common stock we are offering pursuant to this prospectus supplement, after deducting underwriting discounts and commissions and our estimated offering expenses. With respect to the common stock being offered by

Underwriting

the forward purchaser (or an affiliate thereof) in this offering, if we physically settle the forward sale agreement, we expect to receive proceeds of approximately $65,571,000, net of underwriting discounts and commissions and offering expenses, subject to certain adjustments as described above. Settlement must occur no later than August 1, 2008 (such date subject to deferral in certain limited circumstances).

OVER-ALLOTMENT OPTION

The forward purchaser has granted the underwriters an option to purchase up to an aggregate of 525,000 additional shares of common stock, exercisable solely to cover over-allotments, at the public offering price less the underwriting discounts and commissions shown on the cover page of this prospectus supplement. The underwriters may exercise this option at any time, and from time to time, until 30 days after the date of this prospectus supplement. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that underwriter s initial allocation reflected in the above table. If, in connection with the exercise of such option, the forward purchaser (or an affiliate thereof) is unable to borrow, or unable to borrow at a cost not greater than a specified threshold, and deliver for sale on the anticipated closing date for the exercise of such option all or a portion of the shares of our common stock with respect to which such option has been exercised, we will sell the shares of common stock that the forward purchaser (or its affiliate) does not borrow and sell. In such event, the underwriters will have the right to postpone the closing date for the exercise of such option for one day to effect any necessary changes to any documents or arrangements in connection with such closing.

RESTRICTIONS ON SALE OF SIMILAR SECURITIES

Each of our executive officers and directors has agreed with the underwriters not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or hedge any shares of our common stock or securities convertible into or exchangeable or exercisable for shares of our common stock or publicly disclose the intention to make any such offer, sale, pledge, disposition, or hedge or request the registration for the offer or sale of any of the foregoing (or as to which such person has the right to direct the disposition of), directly or indirectly, except with the prior written consent of UBS Securities LLC at its sole discretion, for a period of 90 days after the date of this prospectus supplement. This consent may be given at any time without public notice. This agreement does not apply to sales by our executive officers and directors of up to 55,000 shares of our common stock in the aggregate that occur more than 30 days after the date of this prospectus supplement, which sales are approved in writing by us, sales to us in connection with the cash-less exercise of options, sales under existing trading plans in accordance with the guidelines specified in Rule 10b5-1 of the Securities Exchange Act of 1934, or the entry into a stock trading plan in accordance with the guidelines specified in Rule 10b5-1 of the Securities Exchange Act of 1934 as long as sales of shares under any such newly-entered plan are subject to the foregoing restrictions.

We have agreed that we will not issue, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, hedge or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition, hedge or filing, or grant any options in respect of our shares of common stock without the prior written consent of UBS Securities LLC at its sole discretion, for a period of 60 days after the date of this prospectus supplement. This agreement does not apply to any shares issued in this offering, any issuance of shares to the forward purchaser under the forward sale agreement, grants of stock options or restricted stock pursuant to the terms of

Table of Contents

Underwriting

an equity compensation or similar plan in effect on the date of the underwriting agreement, up to 50,000 shares of common stock issued under our acquisition shelf registration statement in connection with acquisitions or the issuance of an unlimited amount of shares of our common stock pursuant to the terms of our dividend reinvestment and direct stock purchase plan and our employee stock purchase plan.

NEW YORK STOCK EXCHANGE AND PHILADELPHIA STOCK EXCHANGE LISTING

The shares of common stock are listed on the New York Stock Exchange and Philadelphia Stock Exchange under the symbol WTR.

OTHER RELATIONSHIPS

The underwriters and their respective affiliates have from time to time performed and may in the future perform various financial advisory, investment banking and commercial banking services for us and our affiliates, for which they received or will receive reasonable and customary fees and commissions. In particular, as discussed above, an affiliate of UBS Securities LLC intends to enter into a forward sale agreement on or about August 10, 2006 in connection with the proposed forward sale described in this prospectus supplement.

This affiliate is expected to receive certain net proceeds of the offering as a result of short sales to the underwriters to hedge the forward agreement. Because certain net proceeds of this offering are expected to be paid to an affiliate of one of the underwriters, the offering is being conducted in accordance with Rule 2710(h) and Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc.

PRICE STABILIZATION AND SHORT POSITIONS

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase pursuant to the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares covered by the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Table of Contents

Underwriting

Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. The transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

ELECTRONIC DISTRIBUTION

This prospectus supplement and the accompanying prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute this prospectus supplement and the accompanying prospectus electronically. The representative may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations. Other than the prospectus supplement and the accompanying prospectus in electronic format, the information on any of these websites and any other information contained on a website maintained by an underwriter or selling group member is not part of this prospectus supplement or the accompanying prospectus.

Table of Contents

Legal matters

Certain legal matters relating to the common stock offered hereby will be passed upon for us by Morgan, Lewis & Bockius LLP, Philadelphia, Pennsylvania. Certain legal matters in connection with this offering will be passed upon for the underwriters by Davis Polk & Wardwell, New York, New York.

Experts

The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K for the year ended December 31, 2005 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Table of Contents

PROSPECTUS

AQUA AMERICA, INC.
Common Stock
Preferred Stock
Common Stock Purchase Contracts
Common Stock Purchase Units
Depositary Shares
Debt Securities

This prospectus relates to common stock, preferred stock, common stock purchase contracts, common stock purchase units, depositary shares and debt securities that Aqua America, Inc. may sell from time to time in one or more offerings. This prospectus will allow us to issue securities over time. We will provide a prospectus supplement each time we issue securities, which will inform you about the specific terms of that offering and may also supplement, update or amend information contained in this document. You should read this prospectus and each applicable prospectus supplement carefully before you invest.

Our common stock is listed on the New York Stock Exchange and the Philadelphia Stock Exchange under the symbol WTR. The last reported sale price of our common stock on the New York Stock Exchange on December 15, 2005 was $28.09 per share. We have not yet determined whether any of the other securities that may be offered by this prospectus will be listed on any exchange, inter-dealer quotation system or over-the-counter market. If we decide to seek listing of any such securities upon issuance, the prospectus supplement relating to those securities will disclose the exchange, quotation system or market on which the securities will be listed.

Investing in our securities involves risk. See Risk Factors beginning on page 5 of this prospectus. You should read carefully this document and any applicable prospectus supplement before you invest.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 16, 2005.

TABLE OF CONTENTS

	Page
About this prospectus	**1**
Forward-looking statements	**2**
Aqua America, Inc.	**4**
Risk factors	**5**
Use of proceeds	**8**
Certain ratios	**8**
Description of capital stock	**9**
Description of depository shares	**12**
Description of debt securities	**12**
Description of common stock purchase contracts and common stock purchase units	**21**
Where you can find more information	**22**
Legal matters	**23**
Experts	**23**

Table of Contents

About this prospectus

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (SEC) using a shelf registration process. Under this shelf process, we may, from time to time, sell common stock, preferred stock, common stock purchase contracts, common stock purchase units, depositary shares and debt securities in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we sell any securities under this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement also may add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement together with the additional information described below under the heading Where You Can Find More Information before you decide whether to invest in the securities.

The registration statement (including the exhibits) of which this prospectus is a part contains additional information about us and the securities we may offer by this prospectus. Specifically, we have filed certain legal documents that control the terms of the securities offered by this prospectus as exhibits to the registration statement. We will file certain other legal documents that will control the terms of the securities we may offer by this prospectus as exhibits to the registration statement or to reports we file with the SEC. The registration statement and the reports can be read at the SEC Web site or at the SEC offices mentioned under the heading Where You Can Find More Information.

You should rely only upon the information contained in, or incorporated into, this prospectus and the applicable prospectus supplement that contains specific information about the securities we are offering. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this document is accurate only as of the date on the front cover of this document. Our business, financial condition, results of operations and prospects may have changed since that date.

Except as otherwise provided in this prospectus, unless the context otherwise requires, references in this prospectus to we, us and our refer to Aqua America, Inc. and its direct and indirect subsidiaries. In addition, references to Aqua Pennsylvania refer to our wholly-owned subsidiary, Aqua Pennsylvania, Inc., and its subsidiaries. To understand our offering of these securities fully, you should read this entire document carefully, including particularly the Risk Factors section and the documents identified in the section titled Where You Can Find More Information, as well as the applicable prospectus supplement that contains specific information about the securities we are offering.

Table of Contents

Forward-looking statements

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

- projected capital expenditures and related funding requirements;
- developments, trends and consolidation in the water and wastewater utility industries;
- dividend payment projections;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- our capability to pursue timely rate increase requests;
- our authority to carry on our business without unduly burdensome restrictions;
- our ability to obtain fair market value for condemned assets;
- the impact of fines and penalties;
- the development of new services and technologies by us or our competitors;
- the availability of qualified personnel;
- the condition of our assets;
- the impact of legal proceedings;
- general economic conditions;
- acquisition-related costs and synergies; and
- the forward-looking statements contained under the heading Forward-Looking Statements in the section entitled Management s Discussion and Analysis from the portion of our 2004 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

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

- changes in general economic, business and financial market conditions;
- changes in government regulations and policies, including environmental and public utility regulations and policies;

Table of Contents

Forward-looking statements

- changes in environmental conditions, including those that result in water use restrictions;
- abnormal weather conditions;
- changes in capital requirements;
- changes in our credit rating;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- unanticipated capital requirements;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements or the expansion of our operations; and
- civil disturbance or terroristic threats or acts.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this prospectus, the documents that we incorporate by reference into this prospectus and any applicable prospectus supplement completely and with the understanding that our actual future results may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this prospectus. Except for our ongoing obligations to disclose material information under the federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

Table of Contents

Aqua America, Inc.

Aqua America, Inc. (referred to as Aqua America , we or us) is the holding company for regulated utilities providing water or wastewater services to approximately 2.5 million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Virginia, Maine, Missouri, New York and South Carolina. Our customer base is diversified among residential, commercial, industrial, other water, wastewater customers and operating contracts and other customers. Residential customers make up the largest component of our customer base, with these customers representing 60% of our total water revenues.

Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounts for approximately 55% of our operating revenues and provides water or wastewater services to approximately one-half of the total number of people we serve, located in the suburban areas north and west of the City of Philadelphia and in 21 other counties in Pennsylvania. Our other subsidiaries provide similar services in 12 other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our operating companies service territories. We are the largest U.S.-based publicly-traded water utility based on number of people served.

We believe that acquisitions will continue to be an important source of growth for us. We have completed 129 acquisitions or other growth ventures during the five years ended November 30, 2005 adding approximately 250,000 customers to our customer base. We are actively exploring other opportunities to expand our utility operations through acquisitions and otherwise.

With more than 50,000 community water systems and approximately 16,000 wastewater systems in the United States, the water industry is the most fragmented of the major utility industries (i.e., the telephone, natural gas, electric and water industries). We believe that there are many potential water and wastewater system acquisition candidates. We believe the factors driving consolidation of these systems are:

- the benefits of economies of scale;
- increasingly stringent environmental regulations;
- the need for capital investment; and
- the need for technological and managerial expertise.

Our principal executive office is located at 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3489, and our telephone number is 610-527-8000. Our Web site may be accessed at www.aquaamerica.com. Neither the contents of our Web site, nor any other Web site that may be accessed from our Web site, is incorporated in or otherwise considered a part of this prospectus.

Table of Contents

Risk factors

You should carefully consider the following risk factors and the section entitled Forward-Looking Statements before you decide to buy our securities.

Our business requires significant capital expenditures and the rates we charge our customers are subject to regulation. If we are unable to obtain government approval of our requests for rate increases, or if approved rate increases are untimely or inadequate to cover our investments, our profitability may suffer.

The water utility business is capital intensive. On an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. Our ability to maintain and meet our financial objectives is dependent upon the rates we charge our customers. These rates are subject to approval by the public utility commissions or similar regulatory bodies in the states in which we operate. We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Once a rate increase petition is filed with a public utility commission, the ensuing administrative and hearing process may be lengthy and costly. The timing of our rate increase requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase to the extent approved. We can provide no assurances that any future rate increase request will be approved by the appropriate state public utility commission; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increase.

Our operating costs could be significantly increased in order to comply with new or stricter regulatory standards imposed by federal and state environmental agencies.

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

Table of Contents

Risk factors

Our business is subject to seasonal fluctuations, which could affect demand for our water service and our revenues.

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

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

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

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

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

- dilutive issuances of our equity securities;
- incurrence of debt and contingent liabilities;
- failure to have effective internal control over financial reporting;
- fluctuations in quarterly results; and
- other acquisition-related expenses.

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

Table of Contents

Risk factors

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

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

In addition to the potential pollution of our water supply as described above, in the wake of the September 11, 2001 terrorist attacks and the ensuing threats to the nation s health and security, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We have also tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We have and will continue to bear increased costs for security precautions to protect our facilities, operations and supplies. These costs may be significant. We are currently not aware of any specific threats to our facilities, operations or supplies; however, it is possible that we would not be in a position to control the outcome of terrorist events should they occur.

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

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

Table of Contents

Use of proceeds

Unless we otherwise specify in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the securities we may offer by this prospectus to fund our capital expenditures, to fund future acquisitions of municipally owned and investor-owned water and wastewater systems, to integrate any businesses that we acquire into our existing business, to purchase and maintain plant equipment, as well as for working capital and other general corporate purposes. Our management will have broad discretion in the allocation of net proceeds from the sale of any securities sold by us.

Certain ratios

Our ratio of earnings to fixed charges and ratio of earnings to combined fixed charges and preferred stock dividends for the periods indicated below were as follows:

	Nine Months Ended September 30,	Year Ended December 31,				
	2005	2004	2003	2002	2001	2000
Ratio of earnings to fixed charges	3.81	3.57	3.46	3.56	3.36	3.02
Ratio of earnings to combined fixed charges and preferred stock dividends	3.81	3.57	3.46	3.56	3.36	3.02

The ratios of earnings to fixed charges and the ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing earnings by fixed charges and by combined fixed charges and preferred stock dividends, respectively. For the purpose of these computations, earnings have been calculated by adding fixed charges (excluding capitalized interest) to income before income taxes and minority interest. Fixed charges consist of interest cost, whether expensed or capitalized, amortization of deferred financing costs and the estimated interest portion of rental expense charged to income.

Table of Contents

Description of capital stock

The following description of our capital stock sets forth material terms and provisions of our common stock and preferred stock. You should read our current amended and restated articles of incorporation for more detailed terms of our capital stock.

As of December 8, 2005, our authorized capital stock was 301,738,619 shares, consisting of:

- 300,000,000 shares of common stock, par value $0.50 per share, of which 128,846,270 shares were outstanding; and
- 1,738,619 shares of preferred stock, par value $1.00 per share, of which 100,000 shares have been designated as Series A Junior Participating Preferred Stock and reserved for future issuance in connection with our shareholder rights plan and no shares of preferred stock were outstanding.

COMMON STOCK

Voting rights

Holders of our common stock are entitled to one vote for each share held by them at all meetings of the shareholders and are not entitled to cumulate their votes for the election of directors.

Dividend rights and limitations

Holders of our common stock may receive dividends when declared by our board of directors. Because we are a holding company, the funds we use to pay any dividends on our common stock are derived predominantly from the dividends that we receive from our subsidiaries and the dividends they receive from their subsidiaries. Therefore, our ability to pay dividends to holders of our common stock depends upon our subsidiaries earnings, financial condition and ability to pay dividends. Most of our subsidiaries are subject to regulation by state utility commissions and the amounts of their earnings and dividends are affected by the manner in which they are regulated. In addition, they are subject to restrictions on the payment of dividends contained in their various debt agreements. Under our most restrictive debt agreements, the amount available for payment of dividends to us as of September 30, 2005 was approximately $280 million of Aqua Pennsylvania s retained earnings and $66 million of the retained earnings of certain other subsidiaries. Payment of dividends on our common stock is also subject to the preferential rights of the holders of any outstanding preferred stock.

Liquidation rights

In the event that we liquidate, dissolve or wind-up, the holders of our common stock are entitled to share ratably in all of the assets that remain after we pay our liabilities. This right is subject, however, to the prior distribution rights of any outstanding preferred stock.

PREFERRED STOCK

Under our certificate of incorporation, we are authorized to issue up to 1,738,619 shares of preferred stock of which 100,000 shares have been designated and reserved for issuance as Series A Junior Participating Preferred Stock, $1.00 par value per share, in connection with our shareholder rights plan. As of December 8, 2005, no shares of preferred stock were outstanding.

Our board of directors has the authority, from time to time and without further action by our shareholders, to divide our unissued capital stock into one or more classes and one or more series within any class and to make determinations of the designation and number of shares of any class or series and determinations of the voting rights, preferences, limitations and special rights, if any, of the

Table of Contents

Description of capital stock

shares of any class or series. The rights, preferences, limitations and special rights of different classes of capital stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and other matters. The rights, preferences, privileges and restrictions of each series may be fixed by the designations of that series set forth in either a restated version of the certificate of incorporation or a certificate of designations relating to that series.

The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of us without further action by our shareholders. The issuance of preferred stock with voting and conversion rights may also adversely affect the voting power of the holders of our common stock. In certain circumstances, an issuance of preferred stock could have the effect of decreasing the market price of our common stock.

Whenever preferred stock is to be sold pursuant to this prospectus, we will file a prospectus supplement relating to that sale which will specify:

- the number of shares in the series of preferred stock;
- the designation for the series of preferred stock by number, letter or title that will distinguish the series from any other series of preferred stock;
- the dividend rate, if any, and whether dividends on that series of preferred stock will be cumulative, noncumulative or partially cumulative;
- the voting rights of that series of preferred stock, if any;
- any conversion provisions applicable to that series of preferred stock;
- any redemption or sinking fund provisions applicable to that series of preferred stock;
- the liquidation preference per share of that series of preferred stock; and
- the terms of any other preferences or rights, if any, applicable to that series of preferred stock.

Shareholder rights plan

Pursuant to our shareholders rights plan, current or future holders of our common stock have the right to purchase a fraction of a share of our Series A Junior Participating Preferred Stock for each of outstanding share of common stock held by them. Upon the occurrence of certain events, each right would entitle the holder to purchase from us one one-thousandth of a share of Series A Junior Participating Preferred Stock at an exercise price of $90 per one-thousandth of a share, subject to adjustment. The rights are exercisable in certain circumstances, such as when a person or group acquires 20% or more of our common stock or if the holder of 20% or more of our common stock engages in certain transactions with us. In the latter case, the right to purchase Series A Junior Participating Preferred Stock would be exercisable by each holder, but not the acquiring person, to purchase shares of our common stock at a substantial discount from the market price. Additionally, pursuant to our shareholders rights plan, if, after the date that a person has become the holder of 20% or more of our common stock, any person or group merges with us or engages in certain other transactions with us, each holder of a right, other than the acquirer, will have the right to purchase common stock of the surviving corporation at a substantial discount from the market price. These rights are subject to redemption by us in certain circumstances. These rights have no voting or dividend rights and, until exercisable, cannot trade separately from our common stock and have no dilutive effect on our earnings. This plan expires on March 1, 2008.

Anti-takeover provisions

Pennsylvania State Law Provisions

We are subject to various anti-takeover provisions of the Pennsylvania Business Corporation Law of 1988, as amended. Generally, these provisions are triggered if any person or group acquires, or

Table of Contents

discloses an intent to acquire, 20% or more of a corporation s voting power, unless the acquisition is under a registered firm commitment underwriting or, in certain cases, approved by the board of directors. These provisions:

- provide the other shareholders of the corporation with certain rights against the acquiring group or person;
- prohibit the corporation from engaging in a broad range of business combinations with the acquiring group or person; and
- restrict the voting and other rights of the acquiring group or person.

In addition, as permitted by Pennsylvania law, an amendment to our articles of incorporation or other corporate action that is approved by shareholders may provide mandatory special treatment for specified groups of nonconsenting shareholders of the same class. For example, an amendment to our articles of incorporation or other corporate action may provide that shares of common stock held by designated shareholders of record must be cashed out at a price determined by the corporation, subject to applicable dissenters rights.

Articles of Incorporation and Bylaw Provisions

Certain provisions of our articles of incorporation and bylaws may have the effect of discouraging unilateral tender offers or other attempts to take over and acquire our business. These provisions might discourage some potentially interested purchaser from attempting a unilateral takeover bid for us on terms which some shareholders might favor. Our articles of incorporation require that certain fundamental transactions must be approved by the holders of 75% of the outstanding shares of our capital stock entitled to vote on the matter unless at least 50% of the members of the board of directors has approved the transaction, in which case the required shareholder approval will be the minimum approval required by applicable law. The fundamental transactions that are subject to this provision are those transactions that require approval by shareholders under applicable law or the articles of incorporation. These transactions include certain amendments of our articles of incorporation or bylaws, certain sales or other dispositions of our assets, certain issuances of our capital stock, or certain transactions involving our merger, consolidation, division, reorganization, dissolution, liquidation or winding up. Our articles of incorporation and bylaws provide that:

- a special meeting of shareholders may only be called by the chairman, the president, the board of directors or shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast at the particular meeting;
- nominations for election of directors may be made by any shareholder entitled to vote for election of directors if the name of the nominee and certain information relating to the nominee is filed with our corporate secretary not less than 14 days nor more than 50 days before any meeting of shareholders to elect directors; and
- certain advance notice procedures must be met for shareholder proposals to be made at annual meetings of shareholders. These advance notice procedures generally require a notice to be delivered not less than 90 days nor more than 120 days before the anniversary date of the immediately preceding annual meeting of shareholders.

Transfer agent and registrar

The transfer agent and registrar for our common stock is Computershare, Ltd.

Table of Contents

Description of depository shares

We may, at our option, offer fractional shares of our preferred stock, rather than whole shares of our preferred stock. In the event we do so, we will issue receipts for depositary shares, each of which will represent a fraction (to be set forth in the prospectus supplement relating to offering of the depositary shares) of a share of the related series of preferred stock.

The shares of our preferred stock represented by depositary shares will be deposited under a deposit agreement between us and a bank or trust company selected by us having its principal office in the United States and having a combined capital and surplus of at least $50,000,000. Subject to the terms of the deposit agreement, each owner of a depositary share will be entitled, in proportion to the applicable fraction of a share of preferred stock, represented by the depositary share to all of the rights and preferences of the preferred stock represented by the depositary shares (including dividend, voting, redemption, conversion and liquidation rights).

The above description of depositary shares is only a summary, is not complete and is subject to, and is qualified in its entirety by the description in the applicable prospectus supplement and the provisions of the deposit agreement, which will contain the form of depository receipt. A copy of the deposit agreement will be filed with the SEC as an exhibit to or incorporated by reference in the registration statement of which this prospectus is a part.

Description of debt securities

Please note that in this section entitled Description of Debt Securities, references to we, us, ours or our refer only to Aqua America, Inc. and not to its consolidated subsidiaries. Also, in this section, references to holders mean those who own debt securities registered in their own names, on the books that we maintain or the trustee maintains for this purpose, and not those who own beneficial interests in debt securities registered in street name or in debt securities issued in book-entry form through one or more depositaries. Owners of beneficial interests in the debt securities should read the section below entitled Book-Entry Procedures and Settlement.

GENERAL

The debt securities offered by this prospectus will be our unsecured obligations, except as otherwise set forth in an accompanying prospectus supplement, and will be either senior or subordinated debt. We will issue senior debt under a senior debt indenture, and we will issue subordinated debt under a subordinated debt indenture. We sometimes refer to the senior debt indenture and the subordinated debt indenture individually as an indenture and collectively as the indentures. We have filed forms of the indentures with the SEC as exhibits to the registration statement of which this prospectus forms a part. You can obtain copies of the indentures by following the directions outlined in Where You Can Find More Information, or by contacting the applicable indenture trustee.

A form of each debt security, reflecting the particular terms and provisions of a series of offered debt securities, will be filed with the SEC at the time of the offering and incorporated by reference as exhibits to the registration statement of which this prospectus forms a part.

The following briefly summarizes certain material provisions that may be included in the indentures. Other terms, including pricing and related terms, will be disclosed for a particular issuance in an accompanying prospectus supplement. You should read the more detailed provisions of the applicable indenture, including the defined terms, for provisions that may be important to you. You should also read the particular terms of a series of debt securities, which will be described in more detail in an

Table of Contents

Description of debt securities

accompanying prospectus supplement. So that you may easily locate the more detailed provisions, the numbers in parentheses below refer to sections in the applicable indenture or, if no indenture is specified, to sections in each of the indentures. Wherever particular sections or defined terms of the applicable indenture are referred to, such sections or defined terms are incorporated into this prospectus by reference, and the statement in this prospectus is qualified by that reference.

The trustee under each indenture will be determined at the time of issuance of debt securities, and the name of the trustee will be provided in an accompanying prospectus supplement.

The indentures provide that our senior or subordinated debt securities may be issued in one or more series, with different terms, in each case as we authorize from time to time. We also have the right to reopen a previous issue of a series of debt securities by issuing additional debt securities of such series without the consent of the holders of debt securities of the series being reopened or any other series. Any additional debt securities of the series being reopened will have the same ranking, interest rate, maturity and other terms as the previously issued debt securities of that series. These additional debt securities, together with the previously issued debt securities of that series, will constitute a single series of debt securities under the terms of the applicable indenture.

TYPES OF DEBT SECURITIES

We may issue fixed or floating rate debt securities. Fixed rate debt securities will bear interest at a fixed rate described in the prospectus supplement. This type includes zero coupon debt securities, which bear no interest and are often issued at a price lower than the principal amount. United States federal income tax consequences and other special considerations applicable to any debt securities issued at a discount will be described in the applicable prospectus supplement.

Upon the request of the holder of any floating rate debt security, the calculation agent will provide the interest rate then in effect for that debt security, and, if determined, the interest rate that will become effective on the next interest reset date. The calculation agent s determination of any interest rate, and its calculation of the amount of interest for any interest period, will be final and binding in the absence of manifest error.

All percentages resulting from any interest rate calculation relating to a debt security will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point. All amounts used in or resulting from any calculation relating to a debt security will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the base rate that applies to a floating rate debt security during a particular interest period, the calculation agent may obtain rate quotes from various banks or dealers active in the relevant market, as described in the prospectus supplement. Those reference banks and dealers may include the calculation agent itself and its affiliates, as well as any underwriter, dealer or agent participating in the distribution of the relevant floating rate debt securities and its affiliates.

INFORMATION IN THE PROSPECTUS SUPPLEMENT

The prospectus supplement for any offered series of debt securities will describe the following terms, as applicable:

- the title;
- whether the debt is senior or subordinated;
- whether the debt securities are secured or unsecured and, if secured, the collateral securing the debt;

Table of Contents

Description of debt securities

the total principal amount offered;

the percentage of the principal amount at which the debt securities will be sold and, if applicable, the method of determining the price;

the maturity date or dates;

whether the debt securities are fixed rate debt securities or floating rate debt securities;

if the debt securities are fixed rate debt securities, the yearly rate at which the debt security will bear interest, if any, and the interest payment dates;

if the debt security is an original issue discount debt security, the yield to maturity;

if the debt securities are floating rate debt securities, the interest rate basis; any applicable index currency or maturity, spread or spread multiplier or initial, maximum or minimum rate; the interest reset, determination, calculation and payment dates, and the day count used to calculate interest payments for any period;

the date or dates from which any interest will accrue, or how such date or dates will be determined, and the interest payment dates and any related record dates;

if other than in U.S. dollars, the currency or currency unit in which payment will be made;

the denominations in which the currency or currency unit of the securities will be issuable if other than denominations of $1,000 and integral multiples thereof;

the terms and conditions on which the debt securities may be redeemed at our option;

any obligation we may have to redeem, purchase or repay the debt securities at the option of a holder upon the happening of any event and the terms and conditions of redemption, purchase or repayment;

the names and duties of the trustee and any co-trustees, depositaries, authenticating agents, calculation agents, paying agents, transfer agents or registrars for the debt securities;

any material provisions of the applicable indenture described in this prospectus that do not apply to the debt securities;

a discussion of United States federal income tax, accounting and special considerations, procedures and limitations with respect to the debt securities;

whether and under what circumstances we will pay additional amounts to holders in respect of any tax assessment or government charge, and, if so, whether we will have the option to redeem the debt securities rather than pay such additional amounts; and

any other specific terms of the debt securities that are consistent with the provisions of the indenture.

The terms on which a series of debt securities may be convertible into or exchangeable for other of our securities or any other entity will be set forth in the prospectus supplement relating to such series. Such terms will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. The terms may include provisions pursuant to which the number of other securities to be received by the holders of such series of debt securities may be adjusted.

We will issue the debt securities only in registered form. As currently anticipated, debt securities of a series will trade in book-entry form, and global notes will be issued in physical (paper) form, as described below under Book-Entry Procedures and Settlement. Unless otherwise provided in the

Table of Contents

Description of debt securities

accompanying prospectus supplement, we will issue debt securities denominated in U.S. dollars and only in denominations of $1,000 and integral multiples thereof.

The prospectus supplement relating to offered debt securities denominated in a foreign or composite currency will specify the denomination of the offered debt securities.

The debt securities may be presented for exchange, and debt securities other than a global security may be presented for registration of transfer, at the principal corporate trust office of the trustee named in the applicable prospectus supplement. Holders will not have to pay any service charge for any registration of transfer or exchange of debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with such registration of transfer (Section 3.05).

PAYMENT AND PAYING AGENTS

Distributions on the debt securities other than those represented by global notes will be made in the designated currency against surrender of the debt securities at the principal corporate trust office of the trustee named in the applicable prospectus supplement. Payment will be made to the registered holder at the close of business on the record date for such payment. Interest payments will be made at the principal corporate trust office of the trustee named in the applicable prospectus supplement, or by a check mailed to the holder at his registered address. Payments in any other manner will be specified in the applicable prospectus supplement.

CALCULATION AGENTS

Calculations relating to floating rate debt securities and indexed debt securities will be made by the calculation agent, an institution that we appoint as our agent for this purpose. We may appoint one of our affiliates as calculation agent. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of the debt security without your consent and without notifying you of the change. The initial calculation agent will be identified in the applicable prospectus supplement.

SENIOR DEBT

We may issue senior debt securities under the senior debt indenture. Senior debt will rank on a basis equal in priority with all our other debt except our subordinated debt.

SUBORDINATED DEBT

We may issue subordinated debt securities under the subordinated debt indenture. Subordinated debt will rank subordinated and junior in right of payment, to the extent set forth in the subordinated debt indenture, to all our senior debt.

If we default in the payment of any principal of, or premium, if any, or interest on any senior debt when it becomes due and payable after any applicable grace period, then, unless and until the default is cured or waived or ceases to exist, we cannot make a payment on account of or redeem or otherwise acquire the subordinated debt securities.

If there is any insolvency, bankruptcy, liquidation or other similar proceeding relating to us or our property, then all senior debt must be paid in full before any payment may be made to any holders of subordinated debt securities.

Furthermore, if we default in the payment of the principal of and accrued interest on any subordinated debt securities that is declared due and payable upon an event of default under the subordinated debt

Table of Contents

indenture, holders of all our senior debt will first be entitled to receive payment in full in cash before holders of such subordinated debt can receive any payments.

Except as may be otherwise set forth in an accompanying prospectus supplement, senior debt means:

- the principal, premium, if any, and interest in respect of indebtedness for money borrowed and indebtedness evidenced by securities, notes, debentures, bonds or other similar instruments issued, including, as to us, the senior debt securities;
- all capitalized lease obligations;
- all obligations representing the deferred purchase price of property; and
- all deferrals, renewals, extensions and refundings of obligations of the type referred to above.

However, senior debt does not include:

- the subordinated debt securities;
- any indebtedness that by its terms is subordinated to, or ranks in priority on an equal basis with, subordinated debt securities; and
- items of indebtedness (other than capitalized lease obligations) that would not appear as liabilities on a balance sheet prepared in accordance with accounting principles generally accepted in the United States of America.

COVENANTS

The accompanying prospectus supplement will contain any covenants applicable to the debt securities.

MODIFICATION OF THE INDENTURES

The indentures will provide that we and the relevant trustee may enter into supplemental indentures to establish the form and terms of any new series of debt securities without obtaining the consent of any holder of debt securities.

We and the trustee may, with the consent of the holders of at least a majority in aggregate outstanding principal amount of the debt securities of a series, modify the applicable indenture or the rights of the holders of the securities of such series.

No such modification may, without the consent of each holder of an affected security:

- extend the fixed maturity of any such security;
- reduce the rate or change the time of payment of interest on such security;
- reduce the principal amount of such securities or the premium, if any, on such security;
- change any obligation of ours to pay additional amounts with respect to such security;
- reduce the amount of the principal payable on acceleration of such security if issued originally at a discount;
- adversely affect the right of repayment or repurchase of such security at the option of the holder;
- reduce or postpone any sinking fund or similar provision with respect to such security;
- change the currency or currency unit in which such security is payable or the right of selection thereof;

Table of Contents

Description of debt securities

impair the right to sue for the enforcement of any payment with respect to such security on or after the maturity of such security;

reduce the percentage of the aggregate outstanding principal amount of debt securities of the series referred to above whose holders need to consent to the modification or a waiver without the consent of such holders; or

change any obligation of ours with respect to such security to maintain an office or agency.

DEFAULTS

Except as may be otherwise set forth in an accompanying prospectus supplement, each indenture will provide that events of default regarding any series of debt securities will be:

our failure to pay for 30 days required interest on any debt security of such series;

our failure to pay principal or premium, if any, on any debt security of such series when due;

our failure to make any required scheduled installment payment for 30 days on debt securities of such series;

our failure to perform for 90 days after notice any other covenant in the relevant indenture other than a covenant included in the relevant indenture solely for the benefit of a series of debt securities other than such series; and

certain events of bankruptcy or insolvency, whether voluntary or not (Section 5.01).

Except as may be otherwise set forth in an accompanying prospectus supplement, if an event of default regarding debt securities of any series issued under the indentures should occur and be continuing, either the trustee or the holders of 25% in the principal amount of outstanding debt securities of such series may declare each debt security of that series due and payable (Section 5.02). We may be required to file annually with the trustee a statement of an officer as to the fulfillment by us of our obligations under the indenture during the preceding year.

No event of default regarding one series of debt securities issued under an indenture is necessarily an event of default regarding any other series of debt securities.

Holders of a majority in aggregate principal amount of the outstanding debt securities of any series will be entitled to control certain actions of the trustee under the indentures and to waive past defaults regarding such series (Sections 5.12 and 5.13). The holders of debt securities generally will not be able to require the trustee to take any action, unless one or more of such holders provides to the trustee reasonable security or indemnity (Section 6.02).

If an event of default occurs and is continuing regarding a series of debt securities, the trustee may use any sums that it holds under the relevant indenture for its own reasonable compensation and expenses incurred prior to paying the holders of debt securities of such series (Section 5.06).

Before any holder of any series of debt securities may institute action for any remedy, except payment on such holder s debt security when due, the holders of not less than 25% in principal amount of the debt securities of that series outstanding must request the trustee to take action. Holders must also offer and give the satisfactory security and indemnity against liabilities incurred by the trustee for taking such action (Sections 5.07 and 5.08).

DEFEASANCE

Except as may otherwise be set forth in an accompanying prospectus supplement, after we have deposited with the trustee, cash or government securities, in trust for the benefit of the holders

Table of Contents

sufficient to pay the principal of, premium, if any, and interest on the debt securities of such series when due, and satisfied certain other conditions, including receipt of an opinion of counsel that holders will not recognize taxable gain or loss for United States federal income tax purposes, then:

- we will be deemed to have paid and satisfied our obligations on all outstanding debt securities of such series, which is known as defeasance and discharge (Section 14.02); or

- we will cease to be under any obligation, other than to pay when due the principal of, premium, if any, and interest on such debt securities, relating to the debt securities of such series, which is known as covenant defeasance (Section 14.03).

When there is a defeasance and discharge, the applicable indenture will no longer govern the debt securities of such series, we will no longer be liable for payments required by the terms of the debt securities of such series and the holders of such debt securities will be entitled only to the deposited funds. When there is a covenant defeasance, however, we will continue to be obligated to make payments when due if the deposited funds are not sufficient.

GOVERNING LAW

Unless otherwise stated in the prospectus supplement, the debt securities and the indentures will be governed by Pennsylvania law.

CONCERNING THE TRUSTEE UNDER THE INDENTURES

We may have banking and other business relationships with the trustee named in the prospectus supplement, or any subsequent trustee, in the ordinary course of business.

FORM, EXCHANGE AND TRANSFER

We will issue debt securities only in registered form; no debt securities will be issued in bearer form. We will issue each debt security in book-entry form only, unless otherwise specified in the applicable prospectus supplement. We will issue any common stock issuable upon conversion of any debt security being offered in both certificated and book-entry form, unless otherwise specified in the applicable prospectus supplement. Debt securities in book-entry form will be represented by a global security registered in the name of a depositary, which will be the holder of all the debt securities represented by the global security. Those who own beneficial interests in a global security will do so through participants in the depositary s system, and the rights of these indirect owners will be governed solely by the applicable procedures of the depositary and its participants. Only the depositary will be entitled to transfer or exchange a debt security in global form, since it will be the sole holder of the debt security. These book-entry securities are described below under Book-Entry Procedures and Settlement.

If any debt securities are issued in non-global form or cease to be book-entry securities (in the circumstances described in the next section), the following will apply to them:

- The debt securities will be issued in fully registered form in denominations stated in the prospectus supplement. You may exchange debt securities for debt securities of the same series in smaller denominations or combined into fewer debt securities of the same series of larger denominations, as long as the total amount is not changed.

- You may exchange, transfer, present for payment or exercise debt securities at the office of the relevant trustee or agent indicated in the prospectus supplement. You may also replace lost, stolen, destroyed or mutilated debt securities at that office. We may appoint another entity to perform these functions or may perform them.

Table of Contents

Description of debt securities

You will not be required to pay a service charge to transfer or exchange the debt securities, but you may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange, and any replacement, will be made only if our transfer agent is satisfied with your proof of legal ownership. The transfer agent may also require an indemnity before replacing any debt securities.

If we have the right to redeem, accelerate or settle any debt securities before their maturity or expiration, and we exercise that right as to less than all those debt securities, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of exercise and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers of or exchange any debt security selected for early settlement, except that we will continue to permit transfers and exchanges of the unsettled portion of any debt security being partially settled.

If fewer than all of the debt securities represented by a certificate that are payable or exercisable in part are presented for payment or exercise, a new certificate will be issued for the remaining amount of securities.

BOOK-ENTRY PROCEDURES AND SETTLEMENT

Most offered debt securities will be book-entry (global) securities. Upon issuance, all book-entry securities will be represented by one or more fully registered global securities, without coupons. Each global security will be deposited with, or on behalf of, The Depository Trust Company, or DTC, a securities depository, and will be registered in the name of DTC or a nominee of DTC. DTC will thus be the only registered holder of these debt securities.

Purchasers of debt securities may only hold interests in the global notes through DTC if they are participants in the DTC system. Purchasers may also hold interests through a securities intermediary banks, brokerage houses and other institutions that maintain securities accounts for customers that has an account with DTC or its nominee. DTC will maintain accounts showing the security holdings of its participants, and these participants will in turn maintain accounts showing the security holdings of their customers. Some of these customers may themselves be securities intermediaries holding securities for their customers. Thus, each beneficial owner of a book-entry security will hold that debt security indirectly through a hierarchy of intermediaries, with DTC at the top and the beneficial owner s own securities intermediary at the bottom.

The debt securities of each beneficial owner of a book-entry security will be evidenced solely by entries on the books of the beneficial owner s securities intermediary. The actual purchaser of the debt securities will generally not be entitled to have the debt securities represented by the global securities registered in its name and will not be considered the owner under the declaration. In most cases, a beneficial owner will also not be able to obtain a paper certificate evidencing the holder s ownership of debt securities. The book-entry system for holding securities eliminates the need for physical movement of certificates and is the system through which most publicly traded common stock is held in the United States. However, the laws of some jurisdictions require some purchasers of securities to take physical delivery of their securities in definitive form. These laws may impair the ability to transfer book-entry securities.

A beneficial owner of book-entry securities represented by a global security may exchange the securities for definitive (paper) securities only if:

DTC is unwilling or unable to continue as depositary for such global security and we do not appoint a qualified replacement for DTC within 90 days; or

Table of Contents

Description of debt securities

We in our sole discretion decide to allow some or all book-entry securities to be exchangeable for definitive securities in registered form.

Unless we indicate otherwise, any global security that is exchangeable will be exchangeable in whole for definitive securities in registered form, with the same terms and of an equal aggregate principal amount. Definitive securities will be registered in the name or names of the person or persons specified by DTC in a written instruction to the registrar of the securities. DTC may base its written instruction upon directions that it receives from its participants.

In this prospectus, for book-entry securities, references to actions taken by security holders will mean actions taken by DTC upon instructions from its participants, and references to payments and notices of redemption to security holders will mean payments and notices of redemption to DTC as the registered holder of the securities for distribution to participants in accordance with DTC s procedures.

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered under section 17A of the Securities Exchange Act of 1934. The rules applicable to DTC and its participants are on file with the SEC.

We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interest in the book-entry securities or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

Table of Contents

Description of common stock purchase contracts and common stock purchase units

We may issue stock purchase contracts, representing contracts entitling or obligating holders to purchase from us, and us to sell to the holders, a specified number of shares or amount of common stock at a future date or dates. The price per share of common stock may be fixed at the time each contract is issued or may be determined by reference to a specific formula set forth in the contract. Each common stock purchase contract may be issued separately or as a part of a unit, which is referred to in this prospectus as a common stock purchase unit, each consisting of a common stock purchase contract and, as security for the holder s obligation to purchase the common stock under the contract, the following:

- our senior debt securities or subordinated debt securities described under Description of Debt Securities;
- debt obligations of third parties, including U.S. Treasury securities;
- any other asset as security described in the applicable prospectus supplement; or
- any combination of the foregoing.

Each common stock purchase contract may require us to make periodic payments to the holder of the common stock purchase unit or vice versa, and such payments may be unsecured or prefunded on some basis discussed in the applicable prospectus supplement. Each common stock purchase contract may require holders to secure their obligations thereunder in a specified manner and, in certain circumstances, we may deliver a newly issued prepaid common stock purchase contract, which is referred to as a prepaid security, upon release to a holder of any collateral securing such holder s obligations under the original contract.

The applicable prospectus supplement will describe the terms of any common stock purchase contract or common stock purchase unit and, if applicable, prepaid security. The description in the prospectus supplement will not purport to be complete and will be qualified in its entirety by reference to the contracts, units, the collateral arrangements and depositary arrangements, if applicable, relating to such contracts or units and, if applicable, the prepaid securities and the documents pursuant to which such prepaid securities will be issued. The applicable prospectus supplement will also describe the material United States federal income tax considerations applicable to the common stock purchase contracts and common stock purchase units.

Table of Contents

Where you can find more information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s public reference room at 100 F. Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You may also obtain our SEC filings from the SEC s Web site at http://www.sec.gov.

We have filed with the SEC a shelf registration statement on Form S-3 under the Securities Act of 1933 relating to the securities that may be offered by this prospectus. This prospectus is a part of that registration statement, but does not contain all of the information in the registration statement. We have omitted certain parts of the registration statement in accordance with rules and regulations of the SEC. Statements made in this prospectus as to the contents of any contract, agreement or other documents are not necessarily complete, and, in each instance, we refer you to a copy of such document filed as an exhibit to the registration statement, of which this prospectus is a part, or otherwise filed with the SEC. For more detail about us and any securities that may be offered by this prospectus, you may examine the registration statement on Form S-3 and the exhibits filed with it at the locations listed in the previous paragraph.

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus. When we file information with the SEC in the future, that information will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until we sell all of the securities covered by this prospectus; *provided, however,* that we are not incorporating, in each case, any documents or information deemed to have been furnished and not filed in accordance with SEC rules:

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, including portions of our 2004 Annual Report to Shareholders and our definitive Proxy Statement for the 2005 Annual Meeting of Shareholders incorporated therein by reference;

- Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005;

- Our Current Reports on Form 8-K filed on January 21, 2005, March 7, 2005, May 25, 2005, October 7, 2005, December 12, 2005 and December 16, 2005; and

- The description of our common stock set forth in our Registration Statement on Form 8-A, including any amendments or reports filed for the purpose of updating such description.

You may request a copy of any documents that we incorporate by reference at no cost, by writing or telephoning us at:

Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Telephone: 610-527-8000
Attention: Roy H. Stahl, Corporate Secretary

You should rely only on the information contained in or incorporated by reference in this prospectus and any supplements to this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on

Table of Contents

Where you can find more information

it. You should not assume that the information provided in this prospectus or incorporated by reference in this prospectus is accurate as of any date other than the date on the front of this prospectus or the date of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

Legal matters

The validity of the securities that may be offered hereby will be passed upon for us by Morgan, Lewis & Bockius LLP, Philadelphia, Pennsylvania.

Experts

The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2004 have been so incorporated in reliance on the report (which contained an explanatory paragraph indicating that management has excluded from its assessment of and PricewaterhouseCoopers LLP has excluded from its audit of internal control over financial reporting Heater Utilities, Inc. as it was acquired by Aqua America in a purchase business combination during 2004) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Table of Contents