AQUA AMERICA INC
Form 424B5
August 11, 2006

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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).

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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.

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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.

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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.

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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.

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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.

	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.

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.

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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.

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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.

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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.

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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.

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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

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

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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

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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 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.

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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.

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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.

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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.

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