

AQUA AMERICA INC
Form DEF 14A
April 07, 2008

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

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| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Soliciting Material Under Rule 14a-12 |
| <input type="checkbox"/> Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) | |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | |
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AQUA AMERICA, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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4) Date Filed:

AQUA AMERICA, INC.
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 15, 2008

TO THE SHAREHOLDERS OF
AQUA AMERICA, INC.:

Notice is hereby given that the Annual Meeting of Shareholders of AQUA AMERICA, INC. will be held at the **Drexelbrook Banquet Facility & Corporate Events Center, Drexelbrook Drive and Valley Road, Drexel Hill, PA 19026** at 10:00 A.M., local time, on Thursday, May 15, 2008, for the following purposes:

1. To elect three directors to the class of directors for terms expiring at the 2011 Annual Meeting;
2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accountants for the Company for 2008 fiscal year; and
3. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only shareholders of record at the close of business on March 24, 2008 will be entitled to notice of, and to vote at, the Annual Meeting and at any adjournments or postponements thereof.

By Order of the Board of Directors,

ROY H. STAHL
Secretary

April 7, 2008

REGARDLESS OF WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, AS A SHAREHOLDER YOU ARE URGED TO COMPLETE, SIGN AND RETURN THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES, OR VOTE ELECTRONICALLY, THROUGH THE INTERNET OR BY TELEPHONE, BY FOLLOWING THE INSTRUCTIONS SET OUT ON THE PROXY CARD.

TABLE OF CONTENTS

	Page
PURPOSE OF MEETING	1
VOTING AT THE MEETING	1
PROPOSAL NO. 1 ELECTION OF DIRECTORS	2
INFORMATION REGARDING NOMINEES AND DIRECTORS	3
CORPORATE GOVERNANCE	6
DIRECTOR INDEPENDENCE	6
CODE OF ETHICS	7
POLICIES AND PROCEDURES FOR APPROVAL OF RELATED PERSON TRANSACTIONS	8
BOARD COMMITTEES	8

OWNERSHIP OF COMMON STOCK	9
EXECUTIVE COMPENSATION	11
COMPENSATION DISCUSSION AND ANALYSIS	11
COMPENSATION COMMITTEE REPORT	18
CURRENT COMPENSATION	19
NONQUALIFIED DEFERRED COMPENSATION	28
POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL	28
COMPENSATION OF DIRECTORS	34
REPORT OF THE AUDIT COMMITTEE	36
PROPOSAL NO. 2 RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR THE COMPANY FOR FISCAL YEAR 2008	37
SHAREHOLDER PROPOSALS FOR 2009 ANNUAL MEETING	38
PROCEDURES FOR NOMINATING OR RECOMMENDING FOR NOMINATION CANDIDATES FOR DIRECTOR	38
CONSIDERATION OF DIRECTOR CANDIDATES	39
COMMUNICATIONS WITH THE COMPANY OR INDEPENDENT DIRECTORS	39
ADDITIONAL INFORMATION	40
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	40
OTHER MATTERS	40

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY
MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON
MAY 15, 2008**

**This proxy statement and Aqua America's Annual Report to shareholders is available at:
<http://ir.aquaamerica.com/>.**

**AQUA AMERICA, INC.
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010**

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Aqua America, Inc. ("Aqua America" or the "Company") to be used at the Annual Meeting of Shareholders to be held Thursday, May 15, 2008 and at any adjournments thereof. This proxy statement and the enclosed proxy card are being mailed to shareholders on or about April 7, 2008.

The cost of soliciting proxies will be paid by the Company, which has arranged for reimbursement, at the rate suggested by the New York Stock Exchange, of brokerage houses, nominees, custodians and fiduciaries for the forwarding of proxy materials to the beneficial owners of shares held of record. Directors, officers and regular employees of the Company may solicit proxies, although no compensation will be paid by the Company for such efforts.

The proxy statement and Annual Report to Shareholders for the year ended December 31, 2007, including financial statements and other information with respect to the Company and its subsidiaries, are being mailed by standard mail, to shareholders of record as of March 24, 2008. The proxy statement and Annual Report are being sent electronically to those shareholders of record as of March 24, 2008 who requested electronic delivery of these materials. Additional copies of the Annual Report may be obtained by writing to the Company.

PURPOSE OF THE MEETING

As the meeting is the Annual Meeting of Shareholders, the shareholders of the Company will be requested to elect three directors to hold office as provided by law and the Company's Bylaws. The shareholders will also be requested to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accountants for the Company for the year 2008.

VOTING AT THE MEETING

Holders of shares of the Company's Common Stock of record at the close of business on March 24, 2008 are entitled to vote at the meeting. As of that date, there were 133,624,655 shares of Common Stock outstanding and entitled to be voted at the meeting. Each shareholder entitled to vote shall have the right to one vote on each matter presented at the meeting for each share of Common Stock outstanding in such shareholder's name.

The holders of a majority of the shares entitled to vote, present in person or represented by proxy at the meeting, constitute a quorum. Directors are to be elected by a plurality of the votes cast at the meeting. The affirmative vote of a majority of the votes cast by those shareholders present in person or by proxy at the meeting is required to ratify the appointment by the Audit Committee of PricewaterhouseCoopers LLP as the independent registered public accountants for the Company for the 2008 fiscal year. The affirmative vote of a majority of the votes cast by those shareholders present in person or represented by proxy at the meeting is required to take action with respect to any matter properly brought before the meeting on the recommendation of a vote of a majority of the entire Board of Directors. The affirmative vote of at least three quarters of the votes which all shareholders, voting as a single class, are entitled to cast is required to take action with respect to any other matter properly brought before the meeting. Shares cannot be voted at the meeting unless the holder of record is present in person or by proxy. The enclosed

proxy card is a means by which a shareholder may authorize the voting of his or her shares at the meeting if they are unable to attend in person. Alternatively, you may vote electronically, over the Internet or by telephone, following the instructions set out on the proxy card. The shares of Common Stock represented by each properly executed proxy card or electronic proxy will be voted at the meeting in accordance with each shareholder's direction. Shareholders are urged to specify their choices by marking the appropriate boxes on the enclosed proxy card or electronic proxy. If the proxy card or electronic proxy is signed, but no choice has been specified, the shares will be voted as recommended by the Board of Directors. If any other matters are properly presented at the meeting for action, the proxy holders will vote the proxies (which confer discretionary authority to vote on such matters) in accordance with their best judgment.

With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect, other than for purposes of determining the presence of a quorum. Abstentions may be specified for the ratification of the appointment of the independent registered public accountants, but not for the election of directors. Abstentions will be considered present and entitled to vote at the meeting, but will not be considered a vote cast for the ratification of the appointment of the independent registered public accountants and, therefore, will have no effect on the vote on such Proposal. Brokers that are member firms of the New York Stock Exchange (["NYSE"]) and who hold shares in street name for customers, but have not received instructions from a beneficial owner, have the authority under the rules of the NYSE to vote those shares for which their customers do not provide voting instructions on certain routine matters. The election of directors and the ratification of PricewaterhouseCoopers LLP as the Company's independent registered public accountants for the 2008 fiscal year are considered routine matters for which brokers may vote uninstructed shares. Nonroutine matters include matters such as the approval of, and amendments to, stock plans. Therefore, if you do not give your broker instructions, your shares will not be voted on non-routine matters and may not be voted on routine matters. Proxies received from brokers with respect to shares held in street name, that are not voted by brokers, will be considered present and entitled to vote at the meeting, but will not be considered a vote cast, therefore, will have no effect on the Proposals.

Execution of the accompanying proxy or voting electronically or by telephone will not affect a shareholder's right to attend the meeting and vote in person. Any shareholder giving a proxy or voting electronically or by telephone has the right to revoke the proxy or the electronic or telephonic vote by giving written notice of revocation to the Secretary of the Company at any time before the proxy is voted, by executing a proxy bearing a later date, by making a later-dated vote electronically or by telephone or by attending the meeting and voting in person.

Your proxy vote is important. Accordingly, you are asked to complete, sign and return the accompanying proxy card or vote electronically or telephonically regardless of whether or not you plan to attend the meeting.

(PROPOSAL NO. 1)

ELECTION OF DIRECTORS

The Board of Directors is divided into three classes. One class is elected each year to hold office for a three-year term and until successors of such class are duly elected and qualified, except in the event of death, resignation or removal. The Company is required by its Articles of Incorporation and Bylaws to maintain the size of its classes of directors as nearly equal in number as possible.

In accordance with the Company's Corporate Governance Guidelines, the Chairman of the Corporate Governance Committee reported to the Corporate Governance Committee that Mary C. Carroll, Dr. Constantine Papadakis and Ellen T. Ruff, the three directors with terms expiring at the 2008 Annual Meeting would be willing to serve on the Board of Directors for an additional three-year term. In August 2006, the Board of Directors, on the recommendation of the Corporate Governance Committee, appointed Ms. Ellen T. Ruff, President of Duke Energy Carolinas, to the Board of Directors. Ms. Ruff was recommended to the Corporate Governance Committee by Mr. Glanton, Chairman of the Corporate Governance Committee and an independent director. Ms. Ruff was appointed to the class of directors to be elected at the 2008 Annual Meeting of Shareholders. The Corporate Governance Committee reviewed the qualifications of the three directors in relation to the criteria for candidates for nomination for election to the Board under the Company's Corporate Governance Guidelines. The Corporate Governance

2

Committee voted to recommend to the Board of Directors, and the Board of Directors approved, the nomination of Ms. Carroll, Dr. Papadakis and Ms. Ruff for election to the class of directors to be elected at the 2008 Annual Meeting of Shareholders.

Therefore, three directors, Ms. Carroll, Dr. Papadakis and Ms. Ruff, will stand for election by a plurality of the votes cast at the 2008 Annual Meeting, and six directors will continue to serve until either the 2009 or 2010 Annual Meetings, depending on the period remaining in each of their terms. At the 2008 Annual Meeting, proxies in the accompanying form, properly executed, will be voted for the election of the three nominees listed below, unless authority to do so has been withheld in the manner specified in the instructions on the proxy card. Discretionary authority is reserved to cast votes for the election of a substitute should any nominee be unable or unwilling to serve as a director. Each nominee has stated his or her willingness to serve and the Company believes that the nominees will be available to serve.

The Board of Directors recommends that the shareholders vote FOR the election of Ms. Carroll, Dr. Papadakis and Ms. Ruff as directors.

INFORMATION REGARDING NOMINEES AND DIRECTORS

For each of the three nominees for election as directors at the 2008 Annual Meeting and the six directors in the classes of directors whose terms of office are to expire either at the 2009 Annual Meeting or the 2010 Annual Meeting, as set forth herein, there follows information as to the positions and offices with the Company held by each, the principal occupation of each during the past five years, and directorships of public companies and other organizations held by each.

NOMINEES FOR ELECTION AT ANNUAL MEETING

Mary C. Carroll
Bryn Mawr, PA
Director since 1981

Ms. Carroll is a consultant and an advisor to nonprofit corporations, businesses and government agencies and is a well-recognized civic volunteer. She is the Honorary Trade Representative of Nepal and Chairman of the Nepal

Foundation. She is a founder, director or trustee of various civic and charitable organizations, including the YMCA of Philadelphia and Vicinity and the Friends of Patan Hospital. Age: 67.

Dr. Constantine Papadakis
Wayne, PA
Director since 2005

Dr. Papadakis is President of Drexel University, a position he has held since 1995. From 1986 to 1995, Dr. Papadakis was Dean of the College of Engineering at the University of Cincinnati, and from 1984 to 1986 he was Professor and Head of the Civil Engineering Department of Colorado State University. He serves on the Board of Directors of Met-Pro Corporation, AMKOR Technology Inc., CDI Corp. and Mace Security International, Inc. as well as the Philadelphia Stock Exchange and various charitable and civic organizations. Age: 62.

Ellen T. Ruff
Charlotte, NC
Director since 2006

In April 2006, Ms. Ruff was elected President of Duke Energy Carolinas, one of the nation's largest electric utilities that provides electricity and other services to customers in North Carolina and South Carolina. Ms. Ruff joined the Duke Energy organization in 1978 and has held various positions since then, including most recently, Vice President and General Counsel of Corporate, Gas and Electric Operations in January 1999, Senior Vice President and General Counsel for Duke Energy in February 2001, Senior Vice President of Asset Management for Duke Power in August 2001, Senior Vice President of Power Policy and Planning in February 2003, Group Vice President of Power Policy and Planning in March 2004 and Group Vice President of Planning and External Affairs in March 2005. Ms. Ruff serves on the Executive Committee of the North Carolina Citizens for Business and Industry Board of Directors. Age: 59.

3

DIRECTORS CONTINUING IN OFFICE WITH TERMS EXPIRING IN 2009

Nicholas DeBenedictis
Ardmore, PA
Director since 1992

Mr. DeBenedictis has served as Chief Executive Officer of the Company since July 1992 and Chairman of the Board since May 1993. He also serves as Chairman and Chief Executive Officer of the Company's principal subsidiaries, including Aqua Pennsylvania, Inc. Between April 1989 and June 1992, he served as Senior Vice President for Corporate Affairs of PECO Energy Company (now known as Exelon). From December 1986 to April 1989, he served as President of the Greater Philadelphia Chamber of Commerce and from 1983 to 1986 he served as the Secretary of the Pennsylvania Department of Environmental Resources. Mr. DeBenedictis is a director of Exelon Corporation, P.H. Glatfelter Company, Met-Pro Corporation and Harleysville Mutual Insurance Company and a member of the advisory boards of PNC Bank in Philadelphia and Southern New Jersey and Pennoni Associates. He also serves on the Boards of the Greater Philadelphia Chamber of Commerce, the Pennsylvania Business Council, and Philadelphia Hospital Education Foundation, is Chairman of the Philadelphia Convention and Visitors Bureau, and is a Trustee of Drexel University. Age: 62.

Richard H. Glanton
Philadelphia, PA
Director since 1995

Mr. Glanton is Chairman of the Philadelphia Television Network, a privately-held media company. Mr. Glanton was Senior Vice President of Corporate Development at Exelon Corporation from 2003 to 2007. From 1986 to 2003 he was a

partner in the law firm of Reed Smith LLP in Philadelphia. Mr. Glanton is a director of The GEO Group, Inc. Age: 61.

Lon R. Greenberg
Wyndmoor, PA
Director since 2005

Mr. Greenberg has been Chairman of the Board of Directors of UGI Corporation since August 1996 and Chief Executive Officer since August 1995. He was formerly President (July 1994 to August 2005), Vice Chairman of the Board (1995 to 1996) and Senior Vice President of Legal and Corporate Development (1989 to 1994) of UGI Corporation. Mr. Greenberg also serves as a director of UGI Utilities, Inc. and AmeriGas Propane, Inc. Age: 57.

4

DIRECTORS CONTINUING IN OFFICE WITH TERMS EXPIRING IN 2010

Richard L. Smoot
Radnor, PA
Director since 1997

In 2002, Mr. Smoot retired as Regional Chairman Advisory Board Philadelphia and Southern New Jersey, The PNC Financial Services Group, a position he held since 2001. From 1991 through 2000, Mr. Smoot served as President and Chief Executive Officer of PNC Bank in Philadelphia and Southern New Jersey, and its predecessor, Provident National Bank. He also served as Executive Vice President responsible for Operations and Data Processing for the Bank from 1987 to 1991. Before joining PNC Bank in 1987, Mr. Smoot served 10 years as First Vice President and Chief Operating Officer of the Federal Reserve Bank of Philadelphia. Mr. Smoot retired as Chairman of The Philadelphia Orchestra in December 2005 and as Chairman of The Settlement Music School in July 2005. Mr. Smoot is also a director of P.H. Glatfelter Company and Southco Inc. Age: 67.

William P. Hankowsky
Philadelphia, PA
Director since 2004

Mr. Hankowsky has been Chairman, President and Chief Executive Officer of Liberty Property Trust, a fully integrated real estate firm, since 2003. Mr. Hankowsky joined Liberty in 2001 as Executive Vice President and Chief Investment Officer. Prior to joining Liberty, he served for 11 years as President of the Philadelphia Industrial Development Corporation. Prior to that, he was Commerce Director for the City of Philadelphia. Mr. Hankowsky serves on the Board of Citizens Financial Group and on various charitable and civic boards, including the Philadelphia Convention and Visitors Bureau, The Philadelphia Board of Trade and the Kimmel Regional Performing Arts Center. Age: 56.

Andrew J. Sordoni, III
Forty Fort, PA
Director since 2006

Mr. Sordoni is Chairman of Sordoni Construction Services, Inc., a building construction and management services company and has been an officer of that company since 1967. Mr. Sordoni was Chairman or President of C-TEC Corporation, a diversified telecommunications company from 1979 to 1993. Since 1974 he has headed Sordoni Foundation, Inc. and has served as a director of various business and charitable organizations. He is also a director of Harsco Corporation. Age: 64.

5

The Board of Directors operates pursuant to a set of written Corporate Governance Guidelines. Copies of these Guidelines can be obtained free of charge from the Corporate Governance portion of the Investor Relations section of the Company's Web site, www.aquaamerica.com, or by contacting the Company at the address appearing on the first page of this proxy statement, attention Investor Relations Department. (See Additional Information on page 40).

DIRECTOR INDEPENDENCE

The Board of Directors is, among other things, responsible for determining whether each of the directors is independent in light of any relationship each director may have with the Company. The Board has adopted Corporate Governance Guidelines that contain categorical standards of director independence that are consistent with the listing standards of the NYSE. Under the Company's Corporate Governance Guidelines, a director will not be deemed independent if:

- the director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years an executive officer of the Company;
- (A) the director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor, (B) the director is a current employee of such a firm, (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice, or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such firm and personally worked on the Company's audit within that time;
- the director or an immediate family member is or, has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee;
- the director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) and, in the case of an immediate family member who is not an executive officer, other than compensation for service as an employee of the Company;
- the director was an executive officer or employee, or someone in her/his immediate family was an executive officer, of another company that, during any of the other company's past three fiscal years made payments to, or received payments from, the Company for property or services in an amount which, in any single fiscal year of the other company, exceeded the greater of \$1 million or two percent of the other company's consolidated gross revenues; or
- the director served as an executive officer of a charitable organization and, during any of the charitable organization's past three fiscal years, the Company made charitable contributions to the charitable organization in any single fiscal year of the charitable organization that exceeded the greater of \$1 million or two percent, of the charitable organization's consolidated gross revenues.

In addition to these categorical standards, no director will be considered independent unless the Board of Directors affirmatively determines that the director has no material relationship with the Company (either directly, or as a partner, stockholder, director or officer, of an organization that has a relationship with the Company). When making independence determinations, the Board broadly considers all relevant facts and circumstances surrounding any relationship between a director or nominee and the Company. Transactions, relationships and arrangements between directors or members of their immediate family and the Company that are not addressed by the categorical standards may be material depending on the relevant facts and circumstances of such transactions, relationships and arrangements. The Board of Directors considered the following transactions, relationships and arrangements in connection with making the independence determinations:

1. The Company makes contributions in immaterial amounts to charitable or civic organizations for which Ms. Carroll, Mr. Greenberg, Mr. Hankowsky and Dr. Papadakis serve as directors, trustees or executive officers.
2. The Company purchases energy at normal tariff rates from Exelon Corporation, Duke Energy Carolinas and UGI Corporation or their affiliates for which Mr. Glanton, Ms. Ruff and Mr. Greenberg, respectively, serve or served as executive officers.
3. The Company provides water service at normal tariff rates to Liberty Property Trust, UGI Corporation, Exelon Corporation and Drexel University or their affiliates for which Mr. Hankowsky, Mr. Greenberg, Mr. Glanton and Dr. Papadakis, respectively, serve or served as executive officers.
4. Mr. DeBenedictis is a member of the Board of Directors, but not the compensation committee, of Exelon Corporation, for which Mr. Glanton served as an executive officer. Mr. DeBenedictis is also a member of the Board of Trustees of Drexel University for which Dr. Papadakis serves as an executive officer.
5. Mr. DeBenedictis serves on the board directors of other companies and of civic or charitable organizations with Mr. Greenberg, Mr. Hankowsky, Dr. Papadakis, Mr. Smoot and Mr. Sordoni.
6. The Company has paid Liberty Property Trust amounts under the Company's normal developer refund agreement and Mr. Hankowsky serves as an executive officer of Liberty Property Trust. The Company has banking arrangements with Citizens Financial Group or its affiliates and Mr. Hankowsky is a member of the Board of Directors of Citizens Financial Group. The amounts paid by the Company to these other entities are not material to these other entities.

Based on a review applying the categorical standards set forth in the Company's Corporate Governance Guidelines and considering the relevant facts and circumstances of the transactions, relationships and arrangements between the directors and the Company described above, the Board of Directors has affirmatively determined that each nominee for director and each of the Company's other directors, other than Mr. DeBenedictis, the Company's Chief Executive Officer, is independent.

Under the terms of the Company's Corporate Governance Guidelines, the Chair of the Corporate Governance Committee serves as the presiding independent director. The presiding independent director's responsibilities include: presiding at all meetings of the Board of Directors at which the Chairman is not present, including executive sessions of the non-management directors; serving as liaison between the Chairman and the independent directors; reviewing information sent to the Board; reviewing meeting agendas for the Board; reviewing meeting schedules to assure that there is sufficient time for discussion of all agenda items; calling meetings of the independent directors, if appropriate; and, if requested by major shareholders, ensuring that he is available for consultation and direct communications with such shareholders.

In 2005, the Board of Directors approved share ownership guidelines for the directors based on the number of shares having a value equal to five times the annual cash retainer for directors. Directors have up to five years to attain this guideline share ownership level. As of January 31, 2008, six directors met these guidelines. Three directors who joined the Board in 2005 and 2006 did not yet meet the guidelines.

CODE OF ETHICS

The Company maintains a Code of Ethical Business Conduct for its directors, officers and employees, including the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as defined by the rules adopted by the Securities and Exchange Commission ("SEC") pursuant to Section 406(a) of the Sarbanes-Oxley Act of 2002. The Code of Ethical Business Conduct covers a number of important subjects, including: conflicts of interest; corporate opportunities; fair dealing; confidentiality; protection and proper use of Company assets; compliance with laws, rules and regulations (including insider trading laws); and encouraging the reporting of illegal or unethical behavior. Copies of the Company's Code of Ethical Business Conduct can be obtained free of charge from the Corporate Governance portion of the Investor Relations section of the Company's Web site, www.aquaamerica.com, or by contacting the Company at the address appearing on the first page of this proxy

statement, attention Investor Relations Department. The Company intends to post amendments to or waivers from the Code of Ethical Business Conduct (to the extent applicable to the Company's executive officers, senior financial officers or directors) on its Web site.

POLICIES AND PROCEDURES FOR APPROVAL OF RELATED PERSON TRANSACTIONS

In February 2007, the Board formally adopted a written policy with respect to Related Person Transactions to document procedures pursuant to which such transactions are reviewed, approved or ratified. The policy applies to any transaction in which (1) the Company is a participant, (2) any related person has a direct or indirect material interest and (3) the amount involved exceeds \$120,000, but excludes any transaction that does not require disclosure under SEC regulations. The Corporate Governance Committee, with assistance from the Company's General Counsel, is responsible for reviewing, approving and ratifying any related party transaction. The Corporate Governance Committee intends to approve only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its stockholders.

BOARD COMMITTEES

The Board of Directors held five meetings in 2007. The Company's Bylaws provide that the Board of Directors, by resolution adopted by a majority of the whole Board, may designate an Executive Committee and one or more other committees, with each such committee to consist of two or more directors. The Board of Directors annually elects from its members the Executive, Audit, Executive Compensation and Corporate Governance Committees. The Board may also from time to time appoint an ad hoc Finance Committee to approve the terms of the Company's financings. The Pension Committee, which is comprised of senior management of the Company, reports periodically to the Board of Directors. Ms. Carroll serves as an advisor to the Pension Committee. Each director attended at least 75% of the aggregate of all meetings of the Board and the Committees on which each such director served in 2007. The Board of Directors encourages all directors to attend the Company's Annual Meeting of Shareholders. All the directors were in attendance at the 2007 Annual Meeting of Shareholders.

Each of the standing Committees of the Board of Directors operates pursuant to a written Committee Charter. Copies of these Charters can be obtained free of charge from the Corporate Governance portion of the Investor Relations section of the Company's Web site, www.aquaamerica.com, or by contacting the Company. (See Additional Information on page 40).

The current members of the standing Committees of the Board of Directors are as follows:

Executive Committee	Executive Compensation Committee	Audit Committee
Nicholas DeBenedictis*	William P. Hankowsky*	Richard L. Smoot*
Richard H. Glanton	Lon R. Greenberg	William P. Hankowsky
William P. Hankowsky	Ellen T. Ruff	Andrew J. Sordoni, III
Richard L. Smoot		

Corporate Governance Committee
 Richard H. Glanton*
 Mary C. Carroll
 Constantine Papadakis

* Chairman

Executive Committee

The Company's Bylaws provide that the Executive Committee shall have and exercise all of the authority of the Board in the management of the business and affairs of the Company, with specific exceptions. The Executive Committee is intended to serve in the event that action by the Board of Directors is necessary or desirable between regular meetings of the Board, or at a time when convening a meeting of the entire Board is not practical, and to make

recommendations to the entire Board with respect to various matters. The Executive Committee did not meet in 2007. The Executive Committee currently has four members, and the Chairman of the Company serves as Chairman of the Executive Committee.

Audit Committee

The Audit Committee is composed of three directors, whom the Board of Directors has affirmatively determined meet the standards of independence required of audit committee members by the NYSE and applicable SEC rules. Based on a review of the background and experience of the members of the Audit Committee, the Board of Directors has determined that all members of the Audit Committee are financially literate and are audit committee financial experts within the meaning of applicable SEC rules. The Audit Committee was required to meet at least four times during the year and met five times during 2007. The primary responsibilities of the Audit Committee are to monitor the integrity of the Company's financial reporting process and systems of internal controls, including the review of the Company's annual audited financial statements, and to monitor the independence of the Company's independent registered public accounting firm. The Audit Committee has the exclusive authority to select, evaluate and, where appropriate, replace the Company's independent registered public accounting firm.

The Audit Committee has considered the extent and scope of non-audit services provided to the Company by its independent registered public accounting firm and has determined that such services are compatible with the independent registered public accounting firm maintaining its independence. For more information, see the Audit Committee Report on page 36.

Executive Compensation Committee

The Executive Compensation Committee is composed of three directors, whom the Board of Directors has affirmatively determined are independent directors as defined by the NYSE. The Executive Compensation Committee has the power to administer and make awards of stock options, dividend equivalents and restricted stock under the Company's 2004 Equity Compensation Plan and to administer awards under the Company's 1994 Equity Compensation Plan. In addition, the Executive Compensation Committee reviews the recommendations of the Company's Chief Executive Officer as to appropriate compensation of the Company's executive officers (other than the Chief Executive Officer) and determines the compensation of such executive officers and the Company's Chief Executive Officer for the ensuing year. The Executive Compensation Committee held four meetings in 2007.

Corporate Governance Committee

The Corporate Governance Committee is composed of three directors, whom the Board of Directors has affirmatively determined are independent directors as defined by the NYSE. The Corporate Governance Committee is responsible for identifying and considering qualified nominees for directors and developing and periodically reviewing the Corporate Governance Guidelines by which the Board of Directors is organized and executes its responsibilities. In addition, the Chair of the Corporate Governance Committee conducts corporate governance discussions in executive sessions with the Board of Directors. The Corporate Governance Committee also reviews and approves, ratifies or rejects related person transactions under the Company's written policy with respect to related person transactions. The Corporate Governance Committee met once during 2007.

OWNERSHIP OF COMMON STOCK

The following table sets forth certain information as of January 31, 2008 with respect to shares of Common Stock of the Company beneficially owned by: (1) each person known to the Company to be the beneficial owner of more than 5% of the Common Stock of the Company; (2) each director, nominee for director and executive officer named in the Summary Compensation Table; and (3) all directors, nominees and executive officers of the Company as a group. This information has been provided by each of the directors, executive officers and nominees at the request of the Company or derived from statements filed with the SEC pursuant to Section 13(d) or 13(g) of the Exchange Act. Beneficial ownership of securities as shown below has been determined in accordance with applicable guidelines issued by the SEC. Beneficial ownership includes the possession, directly or indirectly, through any

formal or informal arrangement, either individually or in a group, of voting power (which includes the power to vote, or to direct the voting of, such security) and/or investment power (which includes the power to dispose of, or to direct the disposition of, such security).

Beneficial Owner	Sole voting and/or sole investment power(1)	Shared voting and/or shared investment power	Total and percent of class outstanding(2)
Mary C. Carroll	12,779	3,313 (3)	16,092
Nicholas DeBenedictis	716,916	99,276 (4)	816,192
Richard H. Glanton	5,419	□	5,419
Lon R. Greenberg	□	2,700 (5)	2,700
William P. Hankowsky	5,360	□	5,360
Mark J. Kropilak	94,403	5,674 (6)	100,077
Karl M. Kyriss	61,160	850 (7)	62,010
Constantine Papadakis	3,902	□	3,902
Ellen T. Ruff	1,500	□	1,500
David P. Smeltzer	153,089	□	153,089
Richard L. Smoot	15,462	□	15,462
Andrew J. Sordoni	45,186	12,536 (8)	57,722
Roy H. Stahl	204,770	30,556 (9)	235,326
All directors, nominees and executive officers as a group (17 persons)	1,676,242 (10)	192,896 (11)	1,869,138 (1.40%)

- (1) Includes shares held under the Company's Thrift Plan.
- (2) Percentages for each person or group are based on the aggregate shares of Common Stock outstanding as of January 31, 2008 (133,410,551 shares) and all shares issuable to such person or group upon exercise of outstanding stock options exercisable within 60 days of that date. Percentage ownership of less than 1% of the class then outstanding as of January 31, 2008 has not been shown.
- (3) The shareholdings indicated are owned of record by Ms. Carroll's husband. Ms. Carroll disclaims beneficial ownership of these shares.
- (4) The shareholdings indicated include 2,845 shares owned by Mr. DeBenedictis' wife. Mr. DeBenedictis disclaims beneficial ownership of these shares.
- (5) The shareholdings indicated are owned jointly with Mr. Greenberg's wife.
- (6) The shareholdings indicated are owned jointly with Mr. Kropilak's wife.
- (7) The shareholdings indicated are owned jointly with Mr. Kyriss' wife.
- (8) The shareholdings indicated include 2,000 shares owned of record by Mr. Sordoni's wife and 10,536 shares owned by a trust for the benefit of Mr. Sordoni's children and with respect to which Mr. Sordoni's wife is trustee. Mr. Sordoni disclaims beneficial ownership of these shares.

- (9) The shareholdings indicated are owned jointly with Mr. Stahl's wife.
- (10) The shareholdings indicated include 892,553 shares issuable to such group upon exercise of outstanding stock options exercisable under the 1994 and 2004 Equity Compensation Plans and exercisable on or before March 31, 2008.
- (11) The shareholdings indicated include 192,896 shares (i) held in joint ownership with spouses, (ii) held as custodian for minor children, (iii) owned by family members or (iv) in trusts for adult children.

10

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

In this Compensation Discussion and Analysis, we address the compensation paid or awarded to our executive officers listed in the Summary Compensation Table that immediately follows this discussion. We refer to these executive officers as our named executive officers.

Objectives of Aqua America's Compensation Program

Our executive compensation program is designed to motivate our executives to achieve our goals of providing our customers with quality, cost-effective and reliable water and wastewater services and providing our shareholders with a long-term, positive return on their investment.

Toward that end, our compensation program is designed to meet the following objectives:

- provide compensation levels that are competitive with those provided by other companies with which we may compete for new executive talent;
- motivate executives to achieve annual customer service-oriented objectives and strategic business initiatives and reward them for their performance in achieving these objectives and initiatives;
- create a strong link between the compensation of our executives and our financial performance and shareholder value; and
- retain executives of significant abilities.

In administering the executive compensation program, the Executive Compensation Committee (the Compensation Committee) attempts to strike an appropriate balance among the elements of our compensation program to achieve the objectives described above. Each of the elements of the program is discussed in greater detail below.

Elements of Aqua America's Compensation Program

Our executive compensation program is composed of the following six elements, which we believe are important components of a well-designed, balanced, and competitive compensation program:

- Base Salary
- Annual Cash Incentive Awards (referred to as Non-Equity Incentive Plan Compensation in the Summary Compensation Table on pages 19 through 21)
- Equity Incentives
- Retirement Benefits

- Non-Qualified Deferred Compensation Plans
- Change-in-Control Agreements

We utilize these six elements to achieve the objectives of our compensation program as follows:

- competitively benchmarked base salaries are designed to attract and retain executives consistent with their talent and experience;
- promotions and appropriate salary increases are designed to encourage executives to assume increased job duties and responsibilities;
- annual cash incentive awards are intended to reward executives and other employees for improving the quality of service to our customers, controlling the cost of service to our customers by controlling costs and improving performance, achieving economies of scale by the acquisition of additional water and wastewater systems that can benefit from our resources and expertise, and enhancing our financial viability and performance by the achievement of annual objectives;

11

- equity incentives are designed to reward executives and other employees for enhancing our financial health and performance and achieving increases in shareholder value and to help retain executives due to the longer term nature of these incentives; and
- change-in-control agreements with selected executive officers are designed to promote stability and dedication to shareholder value in the event of a fundamental transaction affecting the ownership of Aqua America.

As used in this description, the total of base salary and annual cash incentive compensation is referred to as "total cash compensation" and the total of base salary, annual cash incentive compensation and equity incentive compensation is referred to as "total direct compensation".

Benchmarking Competitive Compensation and the Role of the Committee's Consultant

The Compensation Committee has retained Towers Perrin, a nationally-recognized compensation consulting firm, as the Committee's consultant to assist the Committee in designing and assessing the competitiveness of our executive compensation program. Annually, the Compensation Committee requests the consultant to develop a "going rate" or benchmark for base salary, total cash compensation and total direct compensation for each of the named executive officer positions, including the allocation between cash compensation and equity incentives. Each "going rate" represents the compensation level which would be paid to a hypothetical, seasoned performer in a position having similar responsibilities and scope and in an organization of similar size and type. The executive officers are then grouped into salary grades, which include a salary grade midpoint, a range of target annual cash incentives as a percentage of salary and a range of target equity incentive awards as a percentage of base salary based on the recommendations of the Chief Executive Officer and approval by the Compensation Committee. In light of the broad scope of responsibilities for the Chief Executive Officer, he is in a higher salary grade than the other named executive officers and is paid commensurately more.

In developing the going rates for the executive officers, the consultant uses survey data from utility companies in the consultant's utility industry database, an independent water utility compensation survey, and the consultant's general industry database, which together is referred to as the "Composite Market". The Composite Market is comprised of approximately 62 companies from the consultant's utility industry database, 11 water utility companies from the independent water utility database and 483 companies from the consultant's general industry database. Information on compensation for positions in these databases with similar scopes and responsibilities are compared primarily based on the revenues of the organizations in the databases. For instance, a chief executive officer in a company with higher revenues is usually paid more than a chief executive officer in a company with lower revenues. Due to the relatively limited number of investor-owned water utility companies, the Compensation Committee believes that using this broad survey data provides reasonable and reliable data in determining competitive compensation levels. Towers Perrin uses regression analysis to

size-adjust the survey data for each named executive officer's scope of responsibilities, where possible.

In measuring the competitiveness of the Company's executive compensation program, the Compensation Committee targets competitive compensation levels for total cash compensation for the Company's executive officers at the 50th percentile of compensation levels for utility companies in the Composite Market and targets competitive compensation levels for equity incentives for the executive officers at the 50th percentile of a 50/50 blend of utility companies and general businesses in the Composite Market. We believe that a blended approach is appropriate for equity incentives in order to place a strong focus on creating value for Aqua America's shareholders and to enable us to compete for talent both within and outside of the traditional utility industry.

The Committee considers target total direct compensation levels that are within a range of 15% of the going rates developed by the consultant for each position to be competitive. Variances within this range can be a result of performance, experience and other factors. The average of the total cash compensation for the executive officers was 12% below the competitive benchmark, and the average of the total direct compensation for the executive officers was 6% below the competitive benchmark, for these amounts at the beginning of 2008. Since it is impossible to predict the extent to which performance objectives and financial targets will be achieved, annual cash incentives are valued at their target value and equity awards are valued at their fair market value at the time of grant for purposes of setting the portion of the executive's total compensation package represented by these elements. Payouts of prior cash incentives and changes in the value of equity incentives granted in previous years are not taken into account in determining the amounts of current awards.

12

Determination of Actual Compensation

The Committee determines the actual amount of each element of annual compensation to award to the Company's executive officers, including the named executive officers, with the goal of having the target total direct compensation for the executive officers within +/- 15% of the going rate for their position. We emphasize pay for performance, especially for our higher level executives. Therefore, the named executive officers tend to receive a sizable portion of their total annual compensation from annual cash incentives and equity incentives. In addition, the percentages of total direct compensation represented by base salary, annual cash incentives and equity incentives for the named executive officers are in line with the percentages represented by these elements of total direct compensation for the competitive going rate benchmarks.

Base Salary

A competitive base salary is necessary to attract and retain a talented and experienced workforce. Actual salaries for the named executive officers are determined by the Committee by considering both the going rate for the position and internal equity with both the other named executive officers and other employees in the Company. The Committee's goal is to maintain base salaries within 15% of the going rate over time for each of the named executive officers, although deviations from this goal may occur due to promotions and the executive's performance and time in a particular salary grade. Base salaries are considered for adjustment annually and adjustments are based on general movement in external salary levels, changes in the going rate for the named executive officers' positions provided by the Committee's consultant, the executive's salary in relation to the midpoint of his or her salary grade, individual performance, and changes in individual duties and responsibilities. For 2007, the target salary increase for the named executive officers was 4%, with variations from this target based on the executive officer's performance, promotional increases and the amount by which the executive officer's salary was above or below the going rate for the named executive officer's position.

Annual Cash Incentive Awards

Annual cash incentives under the Annual Cash Incentive Compensation Plan are intended to motivate management to focus on the achievement of annual objectives that will, among other things, improve the level of service to our customers, control the cost of service and enhance our financial performance. The annual cash incentive portion of the compensation package is based on a target incentive award for each executive, which is stated as a percentage of their base salary. The Compensation Committee selects a target annual incentive percentage for each executive so that the executive's target total cash compensation, consisting of base salary and target annual cash incentive, when combined with the executive's target equity incentives, is generally within 15% of the total direct compensation for the going rate for that position.

Actual annual incentive awards for executive officers are calculated using the following formula:

Salary x Target Incentive Percentage x Company Factor x Individual Factor

The Individual Factor is a percentage based on the executive's performance against individual objectives established each year. The Company Factor is a percentage based on the performance of the Company, or the appropriate business unit of the Company, against an annual financial target.

The Company Factor ranges from 50%, if 90% of the annual financial target is achieved, to 125%, if 110% or more of the annual financial target is achieved. If we fail to achieve at least 90% of the financial target, the Company Factor would be 0% and the participant would not receive an annual incentive award.

The financial performance target for executives with overall corporate responsibilities has been Aqua America's budgeted annual net income. The financial performance target for executives with operating unit responsibilities has been a combination of Aqua America's budgeted annual net income and the budgeted annual earnings before interest, taxes and depreciation ("EBITD") of the executive's particular operating unit or units. By tying the Company Factor for executives with operating unit responsibilities primarily to the financial performance of their operating unit or units, we believe that the operating executives will have a closer correlation between their actions and the Company Factor component of their annual cash incentive compensation. EBITD was chosen as the appropriate financial measure for operating unit executives since these executives do not have direct responsibility for decisions affecting interest, taxes and depreciation charges. In the case of both the net income and EBITD measures, the impact of any unbudgeted extraordinary gains or losses as a result of changes in accounting principles may be excluded and results may be adjusted for other factors as deemed appropriate by the Compensation Committee. For Messrs. DeBenedictis, Smeltzer, Stahl

13

and Kropilak, the Company Factor is based on Aqua America's budgeted net income. For Mr. Kyriss, the Company Factor is based 20% on Aqua America's budgeted net income and 80% on EBITD for Aqua America's Mid-Atlantic operations. For purposes of determining the Company Factor, the range of Aqua America's net income was \$87,459,000 to \$106,895,000 for 2006 and \$90,446,000 to \$110,546,000 for 2007. The range of EBITD for Aqua America's Mid-Atlantic operations was \$165,344,000 to \$202,088,000 for 2006 and \$183,549,000 to \$224,337,000 for 2007.

The Individual Factor ranges from 0% to 150% and is determined based on the individual executive's performance against objectives established for the executive each year. Each named executive officer has approximately 10 individual objectives each year and each objective is assigned a point rating. The executive must achieve objectives with a point rating of at least 70 points to be eligible to receive an annual cash incentive award. Achievement of objectives totaling 70 points would result in an Individual Factor of 70%. The total points that can be earned for achieving objectives at the expected level of performance are 90 points, resulting in an Individual Factor of 90%. A total of 110 points can be earned for measurable achievement above expected levels, resulting in an Individual Factor of 110%. Up to an additional 40 discretionary points can be awarded for exceptional performance or for achievements on matters not covered by the executive's original objectives, for a maximum total Individual Factor of 150%. For the Chief Executive Officer, the Individual Factor has been based on over 30 individual objectives with various points for each objective totaling 150 points for all objectives combined. The Chief Executive Officer must also achieve at least 70 points to receive the minimum Individual Factor rating of 70%, and the maximum Individual Factor rating he can achieve is 150% based on achieving all of his objectives for the year as determined by the Compensation Committee.

The annual objectives established for the executive officers, including the named executive officers, will vary depending on their primary areas of responsibility, but the majority of the objectives can be categorized into common areas of emphasis. These common areas of emphasis are customer growth and strategy, improving customer service, cost control, performance improvement, compliance and revenue improvement. The growth objectives for the Chief Executive Officer were based on both the number of acquisitions completed and total customer growth and were consistent with our publicly-announced long-term customer growth goals.

Actual cash incentive awards under the Annual Cash Incentive Compensation Plan for the named executive officers are established by the Committee based on the applicable Company Factor, certified by the Company's

Chief Financial Officer, and each executive officer's Individual Factor. For the Chief Executive Officer, the Committee determines his Individual Factor based on the Committee's assessment of the Chief Executive Officer's performance against his objectives. For the other named executive officers, the Committee reviews and approves the Individual Factors based on the Chief Executive Officer's assessment of the named executive officers' performance against their objectives and possible discretionary points recommended by the Chief Executive Officer. For 2006 and 2007, the actual Company Factors ranged from 78% to 91% and the Individual Factors ranged from 107% to 150% for the named executive officers. Regardless of Aqua America's financial performance, the Compensation Committee retains the authority to determine the final Company Factor, and the actual payment and amount of any annual cash incentive award is always subject to the discretion of the Compensation Committee. The Compensation Committee has never exercised this discretion to deny a cash incentive award that was otherwise earned under the Annual Cash Incentive Compensation Plan.

Equity Incentives

We utilize equity incentives (1) to help align executive compensation with the enhancement of our financial stability and performance, and with shareholder interests by providing the participants with a long-term equity interest in Aqua America and (2) to attract and retain talented employees. Under the terms of our 2004 Equity Compensation Plan, the Compensation Committee and the Board of Directors may grant stock options, dividend equivalents and restricted stock to officers, directors and key employees, and stock options to key consultants of Aqua America and its subsidiaries who are in a position to contribute materially to the successful operation of our business.

As part of its review of the total compensation package for our executives, the Compensation Committee annually reviews our equity incentive compensation program. The Compensation Committee uses a combination of stock options, dividend equivalents and restricted stock, with vesting subject to performance criteria established by the Compensation Committee, to link executive long-term incentives to the enhancement of our long-term financial stability and performance and shareholder interests.

14

Stock options have been the predominant form of equity incentive used by the Compensation Committee, since the Compensation Committee believes that stock options have provided a cost-effective method of achieving the objectives of the equity incentives. Dividend equivalents are used to supplement the stock option awards and to motivate executive performance to achieve results that will enable us to increase dividends for our shareholders. The Compensation Committee generally awards a number of dividend equivalents equal to the number of shares underlying stock options awarded to the executives each year. The Compensation Committee has used restricted stock on a selective basis to supplement the option and dividend equivalent awards to achieve target equity incentive levels for certain executives and as a retention tool for selected executives. The actual number of stock options, dividend equivalents and shares of restricted stock granted each year to the named executive officers is determined by the Committee so that the value of these awards when combined with the named executive officers' base salary and target annual cash incentives, brings the named executive officers' total direct compensation generally within 15% of the target total direct compensation for these positions, taking into account the period over which restricted stock awards are projected to vest.

Each dividend equivalent entitles the grantee to receive in the future an amount of cash compensation equal to the dividends paid by Aqua America on a share of Common Stock for a particular period of time referred to as the accumulation period. For the dividend equivalents awarded to date, the Compensation Committee has set this accumulation period as four years from the date of grant. As part of the dividend equivalent award, the Compensation Committee also sets a target payment date for the dividend equivalents. For the dividend equivalents awarded to date, the Compensation Committee has set this payment date at four years from the date of grant. Under the terms of the Equity Compensation Plan, the actual payment date can be shortened to two years or lengthened to up to eight years depending on our achievement of annual performance criteria established by the Compensation Committee each year. If the payment date is shortened to less than four years, the executive will receive on the payment date any dividend equivalents accrued as of that date and will receive the balance of the applicable dividend equivalents on Aqua America's quarterly dividend payment dates through the end of the accumulation period. The performance criteria for determining the payment date consist of increasing the dividend paid to shareholders and achieving an increase in annual operating income over the prior year. If both criteria are achieved, the payment date is shortened by one year. If neither criteria is achieved, the payment date is lengthened by one year. If only one of the criteria is achieved, there is no change to the payment date. The performance criteria are the same for all executives that are granted dividend equivalents each year.

Restricted stock grants can vest in a given period of time or in increments over a period of years on the anniversaries of the grant date, subject to our achievement of certain performance criteria. These performance criteria require an increase in our annual operating income over previous periods.

Awards of stock options, dividend equivalents and restricted stock are generally all made on the same grant date. The Compensation Committee bases its equity incentive awards for the executives each year on the competitive levels for these awards as described above and does not consider any increase or decrease in the value of past equity incentive awards in making this decision. The Compensation Committee has the discretion to accelerate the vesting of stock options and shorten the payment date for dividend equivalents despite the failure to achieve the designated performance criteria.

In considering the number of stock options to be granted in total to all employees each year, the Compensation Committee considers the number of options outstanding and the number of options to be awarded as a percentage of Aqua America's total shares outstanding. The number of options granted annually to all employees has been less than 1.0% of Aqua America's total shares outstanding.

It is our long-standing practice to set the exercise price for stock options equal to the fair market value of Aqua America's stock on the date of grant, which for 2007 was the closing price for our common stock on the date of grant. It is our policy to make the grant date of equity compensation grants (options, dividend equivalents and restricted stock) the date that the Compensation Committee approves the grants, which is either the date of the Committee's meeting or the date of the Board meeting following the Committee's meeting. The meeting dates for all Board and Compensation Committee meetings, including the dates for the Compensation Committee to approve the equity grants is set in the fall of the preceding year for the coming year, subject to last minute scheduling conflicts, and is independent of the timing of our disclosure of any material non-public information other than our normal annual earnings release.

Retirement Plans

Our qualified retirement plans are intended to provide competitive retirement benefits to help attract and retain employees. Our non-qualified retirement plans are intended to: (1) provide executives with a retirement benefit that is comparable on a percentage of salary basis to that of our other employees participating in our qualified pension plan by providing the benefits that are limited under current Internal Revenue Service regulations; and (2) provide our Chief Executive Officer with a total retirement benefit based on 25 years of service at normal retirement age.

Non-qualified Deferred Compensation Plans

We maintain a non-qualified Executive Deferred Compensation Plan and Director Deferred Compensation Plan that allow eligible members of management and the Board of Directors to defer a portion of their normal compensation. The Director Deferred Compensation Plan was terminated on December 31, 2007 and the account balance for the single director who was participating in the plan was distributed to him in early 2008. Management may defer their salary and annual cash incentives under the Executive Deferred Compensation Plan. Deferred amounts accrue interest at the rate of one percent over the prime rate of interest and, for the participants in the Executive Deferred Compensation Plan, can also be used to purchase universal life insurance. In addition, in order to provide executives with the full company matching contribution available to other employees, executives who choose to defer up to six percent of their salary under one of Aqua America's 401(k) plans, but do not receive the full Aqua America matching contribution under the plans due to the Internal Revenue Service regulations limiting the total dollar amount that can be deferred under a 401(k) plan (\$15,000 for 2006 and \$15,500 for 2007), receive the portion of the Aqua America matching contribution that would otherwise be forfeited by the executive as an Aqua America contribution into the Executive Deferral Plan.

Change-in-Control Agreements

We maintain change-in-control agreements with certain executives, including the named executive officers. The change of control agreements entered into with executive officers are intended to minimize the distraction and uncertainty that could affect key management in the event we become involved in a transaction that could

result in a change of control of Aqua America. Under the terms of these agreements, the covered executives are entitled to certain severance payments and continuation of benefits if they experience a termination of employment other than for cause, or in the event of a good reason termination, as defined in the agreements, within two years following a change-in-control of Aqua America. (See the description of Potential Payments Upon Termination or Change-in-Control on pages 28 through 34.) These agreements help to induce the covered executives to remain with Aqua America and to reinforce and encourage their continued attention and dedication to their duties and responsibilities in the event of a possible change-in-control. These change-in-control agreements are referred to as "double trigger" agreements since they only provide a benefit to executives whose employment is terminated or who have good reason to terminate their employment following a change of control. These change-in-control agreements do not provide any payments or benefits to the covered executives merely as a result of a change-in-control, although other benefits, such as the vesting of unvested stock options, restricted stock and accrued dividend equivalents, may be triggered under our other plans as a result of a change-in-control. Only the agreement with our Chief Executive Officer includes a provision allowing him to receive the benefits under the agreement if he terminates his employment within 12 months after a change of control if he determines that circumstances have changed with respect to Aqua America and he is no longer able to effectively perform his duties and responsibilities. Because of the unique role of a chief executive officer in a corporation, we believe that such a provision is appropriate. Each of the change-in-control agreements, except the agreement with the Chief Executive Officer, limit the amount of the payments under the agreements to the Internal Revenue Service's limitation on the deductibility of these payments under Section 280G of the Internal Revenue Code (the "Code"). The agreement with the Chief Executive Officer does not contain this limitation and requires Aqua America to reimburse him for certain tax impacts of exceeding this limit. See The Impact of Tax Considerations on Executive Compensation Decisions on page 17. Payment under the Chief Executive Officer's agreement is, however, contingent on his agreement to a 12 month non-compete agreement. We believe that the multiples of compensation and other benefits provided under the change-in-control agreements, as described on page 29 are consistent with practices in the market.

The Role of Management in the Executive Compensation Process

Our Chief Administrative Officer assists the Compensation Committee by preparing schedules showing the present compensation of executives and compiling the recommended salary grade midpoints, going rates, target annual cash incentives and target range of equity compensation awards from the information provided by the Compensation Committee's consultant. Our Chief Executive Officer compiles and presents the supporting information for the individual executives' performance against their objectives and his recommendations for any discretionary points for the calculation of the Individual Factor under the Annual Cash Incentive Compensation Plan. He also provides the Compensation Committee with his recommendations for annual salary increases, any changes in target annual cash incentive percentages and equity incentive awards for the other executive officers. Our Chief Executive Officer also provides the Committee with his self assessment of his performance against his objectives. Our Chief Financial Officer provides the Compensation Committee with certifications as to our financial performance for purposes of determining the Company Factor for the Annual Cash Incentive Compensation Plan, our performance against the criteria established by the Compensation Committee for the timing of the payment date for dividend equivalent awards and our performance against the criteria established by the Compensation Committee for the vesting of restricted stock grants. These financial measures are also certified by our Director of Internal Audit. Our Chief Executive Officer makes recommendations to the Committee with respect to the compensation awards for the named executive officers other than himself, but the ultimate decisions regarding compensation for these officers are made by the Compensation Committee.

The Impact of Tax Considerations on Executive Compensation Decisions

While Aqua America's executive compensation program is structured to be sensitive to the deductibility of compensation for federal income tax purposes, the program is principally designed to achieve our objectives as described above. Section 162(m) of the Code generally precludes the deduction for federal income tax purposes of more than \$1 million in compensation (including long-term incentives) paid individually to our Chief Executive Officer and the other named executive officers in any one year, subject to certain specified exceptions. We have determined that it may be appropriate for our Chief Executive Officer's compensation to be at a level such that a portion is not deductible for federal income tax purposes.

As noted above, under the change-in-control agreement with our Chief Executive Officer, our payments to our Chief Executive Officer will not be subject to limitations under Section 280G of the Code, and therefore, a portion

of the payments may not be deductible. In addition, our Chief Executive Officer shall be paid an additional amount such that the net amount he retains after deduction of any excise tax imposed under Section 4999 of the Code, and any federal, state and local income and employment tax and excise tax imposed upon such additional amount shall be equal to the payment otherwise due under the agreement. We included these provisions in our Chief Executive Officer's change-in-control agreement because we did not want the potential excise tax to serve as a disincentive to our Chief Executive Officer's pursuit of a change-in-control transaction that might otherwise be in the best interests of our shareholders. We believe that, in light of our Chief Executive Officer's record of performance, this determination is appropriate.

Equity Ownership Requirements

In 2005, the Board of Directors established stock ownership guidelines for the named executive officers. These executive officers are expected to hold Aqua America shares equal in value to at least five times base salary for our Chief Executive Officer and three times base salary for the other named executive officers. Shareholdings will include shares held under our 401(k) plans. These executive officers are expected to have shareholdings consistent with these guidelines by the fifth anniversary of the adoption of the guidelines or within five years after their appointment as a named executive officer, if later. Each of the named executive officers, except Mr. Kyriass, who was first designated as an executive officer in 2006, and Mr. Kropilak, who was first designated as an executive officer in 2007, met these guidelines as of the end of 2007. It is the Company's policy not to permit hedging or short-selling of the Company's stock by its executive officers.

Recovery of Incentive Compensation

In the event of a significant restatement of our financial results caused by executive fraud or willful misconduct, the Board reserves the right to review the incentive compensation received by the executives with respect to the period to which the restatement relates, recalculate Aqua America's results for the period to which the restatement relates and seek reimbursement of that portion of the incentive compensation that was based on the misstated financial results from the executive(s) whose fraud or willful misconduct was the cause of the restatement.

17

COMPENSATION COMMITTEE REPORT

The Committee has reviewed and discussed the Compensation Discussion and Analysis on pages 11 through 17 with management. Based on this review and discussion, the Committee recommended to the Company's Board of Directors and the Board of Directors approved the inclusion of the Compensation Discussion and Analysis in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and proxy statement for the 2008 Annual Meeting of Shareholders.

Respectfully submitted,

William P. Hankowsky, Chairman
Lon R. Greenberg
Ellen T. Ruff

18

CURRENT COMPENSATION

SUMMARY COMPENSATION TABLE

The following Summary Compensation Table shows compensation paid or earned by the Company's Principal Executive Officer, Principal Financial Officer and the next three most highly compensated executive officers of the Company during the fiscal year ended December 31, 2007.

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(1)	Stock Awards		Option Awards		Non-Equity Non-qualified Incentive Plan Compensation		Change in Pension Value and Deferred	All Other Compensation (\$)(10)
				(2)	(4)(5)	(3)	(6)(7)	(8)	(9)	(10)	
Nicholas DeBenedictis Chief Executive Officer (Principal Executive Officer)	2007	453,847	□	352,594	391,586	355,446	453,520	82,980			
	2006	417,120	□	272,610	424,748	346,909	333,285	189,688			
David P. Smeltzer Chief Financial Officer (Principal Financial Officer)	2007	236,249	□	114,763	97,348	83,054	64,636	25,156			
	2006	217,810	□	102,090	98,386	76,077	54,092	47,549			
Roy H. Stahl Chief Administrative Officer, General Counsel and Secretary	2007	259,068	□	123,061	117,987	87,556	140,967	33,019			
	2006	247,167	□	120,880	130,266	96,398	114,803	66,833			
Karl M. Kyriss Regional President - Mid-Atlantic Operations	2007	205,196	□	32,465	70,106	66,503	118,100	17,823			
	2006	189,215	□	□	66,505	58,033	83,568	28,273			
Mark J. Kropilak Senior V.P. Corporate Development and Corporate Counsel	2007	194,582	□	32,465	64,897	51,368	44,644	10,274			

Notes:

- (1) Salary and Non-equity Incentive Plan Compensation amounts include amounts deferred by the individual.
- (2) Amounts for stock awards represent the dollar amount recognized for financial statement reporting purposes for the fair value of stock awards granted in 2007 and 2006 in accordance with SFAS 123R. These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executives. The assumptions used in calculating the fair market value under SFAS 123R are set forth in the Employee Stock and Incentive Plan footnote to the Company's audited financial statements in the Company's Annual Report on Form 10-K.

- (3) Amounts for option awards represent the dollar amount recognized for financial statement reporting purposes for the fair value of option awards granted in 2007 and 2006 as well as prior fiscal years, in accordance with SFAS 123R. These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executive.
- The assumptions used in calculating the fair market value under SFAS 123R are set forth in the Employee Stock and Incentive Plan footnote to the Company's audited financial statements in the Company's Annual Report on Form 10-K. The fair value of options was estimated at the grant date using the Black-Scholes Option Pricing Model. Estimated values are based on assumptions as to such variables as interest rates, stock price volatility, dividend yield and the expected term of the options. Such assumptions are set forth in the Employee Stock and Incentive Plan footnote to the Company's audited financial statements in the Company's Annual Report on Form 10-K.
- (4) Amounts are based on the award of the following number of shares of restricted stock taken into account pursuant to SFAS 123R in 2007 but were awarded in 2004, 2005, 2006 and 2007: 14,944 shares for Mr. DeBenedictis awarded in 2004, 2005, 2006 and 2007; 5,278 shares for Mr. Stahl awarded in 2004, 2005, 2006 and 2007; 4,833 shares for Mr. Smeltzer awarded in 2004, 2005, 2006 and 2007; 1,389 shares for Mr. Kyriss awarded in 2007; and 1,389 shares for Mr. Kropilak awarded in 2007.
- (5) Amounts are based on the award of the following number of shares of restricted stock taken into account pursuant to SFAS 123R in 2006, but were awarded in 2003, 2004, 2005 and 2006: 12,611 shares for Mr. DeBenedictis; 6,056 shares for Mr. Stahl; and 4,944 shares for Mr. Smeltzer.
- (6) Amounts are based on the award of the following number of stock options taken into account pursuant to SFAS 123R in 2007, but were awarded in 2004, 2005, 2006 and 2007: 70,164 options for Mr. DeBenedictis; 21,022 options for Mr. Stahl; 17,023 options for Mr. Smeltzer; 12,015 options for Mr. Kyriss; and 11,349 options for Mr. Kropilak.
- (7) Amounts are based on the award of the following number of stock options taken into account pursuant to SFAS 123R in 2006, but were awarded in 2003, 2004, 2005 and 2006: 88,517 options for Mr. DeBenedictis; 27,222 options for Mr. Stahl; 19,991 options for Mr. Smeltzer; and 12,916 options for Mr. Kyriss.
- (8) Non-Equity Plan Incentive Compensation is shown for the year in which the compensation is earned, regardless of when paid.
- (9) Includes earnings in 2007 on deferred compensation that are above-market (above 120% of the applicable federal long-term rate as calculated on a monthly basis) of \$45,274 for Mr. DeBenedictis, \$1,474 for Mr. Stahl, and \$1,182 for Mr. Smeltzer. In 2006, earnings on deferred compensation that were above-market were \$40,440 for Mr. DeBenedictis, \$1,246 for Mr. Stahl, and \$617 for Mr. Smeltzer. The change in cash surrender of life insurance for 2007 was \$33,668 for Mr. DeBenedictis and \$7,172 for Mr. Stahl. The change in cash surrender of life insurance for 2006 was \$32,269 for Mr.

DeBenedictis and \$3,619 for Mr. Stahl.

The change in pension value is based on the aggregate change in the actuarial present value of the named executive officer's accumulated benefit under all defined benefit and actuarial pension plans (including supplemental plans) from the pension plan measurement date used for financial statement reporting purposes the Company's audited financial statements for the prior completed fiscal year to the pension plan measurement date used for financial statement reporting purposes in the Company's audited financial statements for the covered fiscal year.

- (10) For 2007, the amount includes: (1) dividends on restricted stock grants pending their vesting or forfeiture of \$14,594 for Mr. DeBenedictis, \$5,220 for Mr. Stahl, \$4,879 for Mr. Smeltzer, \$1,825 for Mr. Kyriss, and \$1,825 for Mr. Kropilak; (2) amounts contributed by the Company to the Executive Deferral Plan representing the amount of the Company's Matching Contribution under the Company's 401(k) Plan that could not be contributed to the 401(k) Plan as a result of the Internal Revenue Code restrictions on the amount an participant can contribute as a salary deferral to the plan; (3) dividend equivalents paid to the named executives during the year of \$55,342 to Mr. DeBenedictis, \$17,850 to Mr. Stahl, \$11,996 to Mr. Smeltzer, \$7,933 to Mr. Kyriss and \$1,873 to Mr. Kropilak; and (4) Company Matching contributions to the Company's 401(k) plan.

20

For 2006, the amount includes: (1) dividends on restricted stock grants pending their vesting or forfeiture of \$12,268 for Mr. DeBenedictis, \$5,241 for Mr. Stahl, \$4,431 for Mr. Smeltzer, and \$0 for Mr. Kyriss; (2) amounts contributed by the Company to the Executive Deferral Plan representing the amount of the Company's Matching Contribution under the Company's 401(k) Plan that could not be contributed to the 401(k) Plan as a result of the Internal Revenue Code restrictions on the amount an participant can contribute as a salary deferral to the plan; (3) dividend equivalents paid to the named executives during the year of \$164,876 to Mr. DeBenedictis, \$53,348 to Mr. Stahl, \$26,113 to Mr. Smeltzer, and \$20,860 to Mr. Kyriss; and (4) Company Matching contributions to the Company's 401(k) plan.

Dividends on shares of restricted stock pending the release of the stock from restrictions are paid to the grantee and these amounts are included in the All Other Compensation column set forth above. Amounts deferred by participants in the Company's Executive Deferral Plan earn interest at the rate of the prime rate plus 1% or may be used to purchase life insurance under a flexible premium universal life insurance policy, with any cash value under such policies being invested in a variety of investment funds offered by the insurance carrier under the policy. The above-market earnings on deferred compensation included in the Change in Pension Value and Non-Qualified Deferred Compensation Earning column are computed based on the basis of increases in the cash value of the insurance policies held under the Plan and the interest earned in any month during which the average interest rate at the prime interest rate plus 1% exceeded 120% of the average of the federal long-term rate for that month.

GRANTS OF PLAN-BASED AWARDS

The following table sets forth information regarding equity and non-equity awards granted to the named executive officers in 2007.

Grants of Plan-Based Awards

	All Other Stock Awards:	All Other Option Awards:
--	--	---

Name	Estimated Future Payouts Under							Number	Number of	
	Non-Equity Incentive Plan				Estimated Future Payouts Under			of Shares	Securities	B
	Awards (1)				Equity Incentive Plan Awards			of Stock	Underlying	C
	Grant Date	Threshold (\$)(2)	Target (\$)(3)	Maximum (\$)(4)	Threshold (#)	Target (#)	Maximum (#)	or Units (#)	Options (#)(6)	
N. DeBenedictis	2/22/2007	113,925	325,500	610,313	n/a	15,000	n/a	□	55,000	
D. Smeltzer	2/22/2007	33,880	96,800	181,500	n/a	5,000	n/a	□	15,000	
R. Stahl	2/22/2007	36,718	104,908	196,702	n/a	5,000	n/a	□	17,000	
K. Kyriss	2/22/2007	22,050	63,000	118,125	n/a	5,000	n/a	□	10,000	
M. Kropilak	2/22/2007	20,580	58,800	110,250	n/a	5,000	n/a	□	10,000	

Notes:

- (1) The executive's Non-Equity Incentive Plan Awards are calculated based on the executive's current annual salary multiplied by the executive's target incentive compensation percentage times an Individual Factor times a Company Factor.
- (2) The Threshold Non-Equity Incentive Plan Award is based on the minimum Individual Factor of 70% and the minimum Company Factor of 50%.
- (3) The Target Non-Equity Incentive Plan Award is based on an Individual Factor of 100% and a Company Factor of 100%.
- (4) The Maximum Non-Equity Incentive Plan Award is based on the maximum Individual Factor of 150% and the maximum Company Factor of 125%.
- (5) Equity Incentive Plan Awards are shares of restricted stock. There are no threshold or maximum amounts related to the restricted stock.
- (6) Stock option awards vest in three annual installments starting on the first anniversary of the grant date.
- (7) The exercise price for stock options granted under the Company's Equity Compensation Plan is the closing price for the Company's Common Stock on the grant date.
- (8) The grant date fair value of stock and option awards is based on their fair market value on the date of grant as determined under SFAS 123R. The assumptions used in calculating the fair market value under SFAS 123R are set forth in the Employee Stock and Incentive Plan footnote to the Company's audited financial statements in the Company's Annual Report on Form 10-K.
- (9) The restricted stock grants for Messrs. DeBenedictis, Smeltzer and Stahl vest in three annual installments starting on the first anniversary of the grant date, subject to the Company achieving an increase in operating income in the year immediately prior to the

vesting date over the prior year. The restricted stock grants for Mr. Kyriss and Mr. Kropilak vest on the third anniversary of the grant date, subject to the Company achieving an increase in operating income in the year immediately prior to the vesting date over the operating income in the year of the grant.

Under the Estimated Future Payouts Under Non-Equity Incentive Plan Awards columns in the table above, the amounts were calculated based on the individual's target bonus percentage times their current annual salary, and using an Individual Factor of 70% and a Company Factor of 50% for the Threshold amount, an Individual Factor of 100% and a Company Factor of 100% for the Target amount, and an Individual Factor of 150% and Company Factor of 125% for the Maximum amount.

Stock Awards are in the form of restricted stock with various vesting periods. The grants for Messrs. DeBenedictis, Smeltzer and Stahl each vest in installments of one-third each year starting on the first anniversary of the grant date. The grants for Mr. Kyriss and Mr. Kropilak vest 100% on the third anniversary of the grant date. In order for the grantee to receive the applicable portion of the restricted stock grant when it vests, the Company must also achieve the financial performance criteria established by the Committee. For the restricted stock grants made to Messrs. DeBenedictis, Stahl and Smeltzer, the performance criteria are an increase in the Company's operating income in the year ending immediately prior to the vesting date over the prior year. For the restricted stock grants made to Mr. Kyriss and Mr. Kropilak, the performance criterion is an increase in the Company's operating income in the year immediately prior to the vesting date over the Company's operating income in the year of the grant date. If the Company does not achieve the required financial performance, the shares that would otherwise vest are forfeited. Therefore, the full number of shares of restricted stock is included in the Target column under the Estimated Future Payouts Under Equity Incentive Plan Awards.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information on outstanding stock option and restricted stock awards held by the named executive officers at the end of 2007.

Outstanding Equity Awards At Fiscal Year-End

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market Value of Unearned Shares, Units or Rights That Have Not Vested (\$)
N.DeBenedictis	23,286			\$ 13.7550	5/5/2013			30,778 (1)	\$ 652
	56,031			\$ 16.1475	3/1/2014				
	62,222	31,111 (6)		\$ 18.3338	2/28/2015				

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	18,333	36,667 (7)		\$ 29.4600	3/7/2016				
		55,000 (8)		\$ 23.2600	2/22/2017				
D.Smeltzer								10,113 (2)	\$ 214
	4,483			\$ 7.0425	3/6/2010				
	12,121			\$ 11.4600	3/6/2011				
	20,831			\$ 12.4875	6/17/2012				
	20,831			\$ 13.7550	5/15/2013				
	20,000			\$ 16.1475	3/1/2014				
	13,333	6,666 (6)		\$ 18.3338	2/28/2015				
	4,999	10,001 (7)		\$ 29.4600	3/7/2016				
		15,000 (8)		\$ 23.2600	2/22/2017				
R.Stahl								10,556 (3)	\$ 223
	13,180			\$ 11.4600	3/6/2011				
	29,998			\$ 12.4875	6/17/2012				
	29,998			\$ 13.7550	5/15/2013				
	30,000			\$ 16.1475	3/1/2014				
	17,777	8,889 (6)		\$ 18.3338	2/28/2015				
	5,666	11,334 (7)		\$ 29.4600	3/7/2016				
		17,000 (8)		\$ 23.2600	2/22/2017				
K.Kyriss								5,000 (4)	\$ 106
	13,333			\$ 12.4830	3/3/2013				
	13,332			\$ 16.1475	3/1/2014				
	8,888	4,444 (6)		\$ 18.3338	2/28/2015				
	3,999	8,001 (7)		\$ 29.4600	3/7/2016				
		10,000 (8)		\$ 23.2600	2/22/2017				

23

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units That Have Not Vested (#)	Market Value of Shares or Units That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	
M. Kropilak	416			\$ 7.0425	3/6/2010			5,000 (5)	\$ 106,000

	10,416			\$ 11.4600	3/6/2011				
	11,666			\$ 12.4875	6/17/2012				
	13,331			\$ 12.4830	3/3/2013				
	13,333			\$ 16.1475	3/1/2014				
	8,888	4,444 (6)		\$ 18.3338	2/28/2015				
	3,333	6,667 (7)		\$ 29.4600	3/7/2016				
		10,000 (8)		\$ 23.2600	2/22/2017				

Notes:

- (1) Of Mr. DeBenedictis' 30,778 restricted shares of common stock, 5,778 shares vest on February 28, 2008, 5,000 shares vest on March 7, 2008, 5,000 shares vest on February 22, 2008, 5,000 shares vest on March 7, 2009, 5,000 shares vest on February 22, 2009 and 5,000 shares vest on February 22, 2010.
- (2) Of Mr. Smeltzer's 10,113 restricted shares of common stock, 1,779 shares vest on February 28, 2008, 1,667 shares vest on March 7, 2008, 1,666 shares vest on February 22, 2008, 1,667 shares vest on March 7, 2009, 1,667 shares vest on February 22, 2009 and 1,667 shares vest on February 22, 2010.
- (3) Of Mr. Stahl's 10,556 restricted shares of common stock, 2,222 shares vest on February 28, 2008, 1,667 shares vest on March 7, 2008, 1,666 shares vest on February 22, 2008, 1,667 shares vest on March 7, 2009, 1,667 shares vest on February 22, 2009 and 1,667 shares vest on February 22, 2010.
- (4) Of Mr. Kyriss' 5,000 restricted shares of common stock, 5,000 shares vest on February 22, 2010.
- (5) Of Mr. Kropilak's 5,000 restricted shares of common stock, 5,000 shares vest on February 22, 2010.
- (6) 100% vest on February 28, 2008.
- (7) 50% vest on March 7, 2008 and 50% vest on March 7, 2009.
- (8) One third vest on February 22, 2008, one third vest on February 22, 2009, and one third vest on February 22, 2010.

24

OPTION EXERCISES AND STOCK VESTED

The following table sets forth (1) the number of shares of Aqua America's Common Stock acquired by the named executive officers in 2007 from the exercise of stock options, (2) the value realized by those officers upon the exercise of those stock options based on the difference between the market price for our Common Stock on the date of exercise and the exercise price for the options, (3) the number of shares of restricted stock previously granted to the named executive officers that vested in 2007, and (4) the value realized by those officers upon the vesting of such shares based on the closing market price for our shares of Common Stock on the vesting date.

Option Exercises and Stock Vested

Option Awards Number of Shares	Stock Awards Number of Shares
--------------------------------------	-------------------------------------

Name	Acquired on Exercise (#)	Value Realized on Exercise (\$)	Acquired on Vesting (#)	Value Realized on Vesting (\$)
N. DeBenedictis	6,192	58,716	13,444	305,065
D. Smeltzer	0	0	5,222	118,914
R. Stahl	55,455	806,688	6,334	144,773
K. Kyriss	0	0	0	0
M. Kropilak	10,000	169,575	0	0

RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

PENSION BENEFITS

The following table shows the number of years of credited service for the named executive officers under our various retirement plans and the actuarial present value of accumulated benefits under those plans as of December 31, 2007 and any payments made to the named executive officers in 2007 under those plans.

Pension Benefits

Name	Plan Name	Number of Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
N. DeBenedictis	Retirement Income Plan for Aqua America, Inc. and Subsidiaries	16	511,409	0
	ERISA Excess Benefits Plan	16	1,636,340	0
	Supplemental Executive Retirement Plan	23	939,640	0
D. Smeltzer	Retirement Income Plan for Aqua America, Inc. and Subsidiaries	22	401,790	0
	ERISA Excess Benefits Plan	22	195,499	0
R. Stahl	Retirement Income Plan for Aqua America, Inc. and Subsidiaries	25	793,313	0
	ERISA Excess Benefits Plan	25	403,385	0
K. Kyriss	Retirement Income Plan for Aqua America, Inc. and Subsidiaries	13	327,647	0
	ERISA Excess Benefits Plan	13	61,717	0
M. Kropilak	Retirement Income Plan for Aqua America, Inc. and Subsidiaries	23	469,434	0
	ERISA Excess Benefits Plan	23	65,285	0

RETIREMENT INCOME PLAN FOR AQUA AMERICA, INC. AND SUBSIDIARIES (THE "RETIREMENT PLAN")

Aqua America, Inc. sponsors a qualified defined benefit Retirement Plan to provide retirement income to Aqua America's employees hired prior to certain dates starting in 2003. For the portion of the Retirement Plan covering

the named executive officers, plan compensation is defined as total compensation paid, but excludes contributions made by Aqua America to a plan of deferred compensation, distributions from a deferred compensation plan, amounts realized from the exercise of stock options or when restricted stock becomes freely transferable, fringe benefits, welfare benefits, reimbursements or other expense allowances, moving expenses and commissions. The Employee Retirement Income Security Act of 1974, as amended, (ERISA) imposes maximum limitations on the annual amount of pension benefits that may be paid under, and the amount of compensation that may be taken into account in calculating benefits under, a qualified, funded defined benefit pension plan such as the Retirement Plan. The Retirement Plan complies with these ERISA limitations.

Benefits earned under the final pay formula are equal to 1.35% of average plan compensation plus 0.45% of average plan compensation above Covered Compensation for each year of credited service up to 25 years, and 0.5% of average plan compensation for each year of credited service above 25 years. The annual benefit is further subject to a minimum benefit schedule. Average plan compensation is defined as the average of plan compensation over the highest five consecutive years out of the last ten years. Covered Compensation is defined as the average of the Social Security Wage Bases in effect for each calendar year during the thirty-five year period ending with the last day of the calendar year of the benefit determination.

Under the terms of the Retirement Plan, a Company participant becomes fully vested in his or her accrued pension benefit after five years of credited service. Participants may retire as early as age 55 with 10 years of service. Unreduced benefits are available when a participant attains the earlier of age 65 with 5 years of service or age 62 with 30 years of service. Otherwise, benefits are reduced 3% for each year by which retirement precedes the attainment of age 65. Pension benefits earned are payable in the form of a lifetime annuity. Married individuals receive a reduced benefit paid in the form of a qualified joint and survivor annuity.

Messrs. DeBenedictis, Kyriss and Stahl are currently eligible to retire under the plan.

The provisions described above cover a significant portion of the company's non-union workforce hired prior to certain dates starting in 2003, including each of the named executive officers. Certain union employees and certain other non-union employees are covered under separate definitions of plan compensation, benefit formulas and benefit options within the Retirement Plan.

AQUA AMERICA, INC. SUPPLEMENTAL RETIREMENT PLANS

Effective December 1, 1989, the Board of Directors adopted an Excess Benefits Plan for Salaried Employees of the Company (the ERISA Excess Plan). The ERISA Excess Plan is a nonqualified pension benefit plan that is intended to provide an additional pension benefit to Company participants in the Retirement Plan and their beneficiaries whose benefits under the Retirement Plan are adversely affected by the ERISA limitations described above. In addition, deferred compensation is excluded from the Retirement Plan Compensation, but is included in the calculation of benefits under the ERISA Excess Plan. The benefit under the ERISA Excess Plan is equal to the difference between (i) the amount of the benefit the Company participant would have been entitled to under the Retirement Plan absent such ERISA limitations and including deferred compensation in the final average earnings calculation, and (ii) the amount of the benefit actually payable under the Retirement Plan.

A Supplemental Executive Retirement Plan, or SERP, has been established for Mr. DeBenedictis. This Plan, which is nonqualified and unfunded, was approved by the Board of Directors in 1992. Under the terms of the SERP, Mr. DeBenedictis will be eligible to receive a benefit at normal retirement equal to the difference between (i) the benefit to which he would otherwise be entitled under the Retirement Plan assuming he had 25 years of service and absent the ERISA limitations referred to above, and (ii) the benefit payable to him under the Retirement Plan and the ERISA Excess Plan. Under the terms of Mr. DeBenedictis' SERP, if his employment is terminated for any reason prior to age 65, he is entitled to receive a supplemental retirement benefit equal to the difference between (i) the benefit to which he would otherwise be entitled under the Retirement Plan assuming he was credited with two

years of service for each of his first seven years of credited service plus one year of service each year thereafter and absent the ERISA limitations on pay and benefits and (ii) the benefit payable to him under the Retirement Plan and the ERISA Excess Plan.

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Participants may retire as early age 55 with 10 years of service under the ERISA Excess Plan and the SERP. Unreduced benefits are available when a participant attains the earlier of age 65 with 5 years of service or age 62 with 30 years of service. Otherwise, benefits are reduced 3% for each year by which retirement precedes the attainment of age 65. Pension benefits earned are payable in the form of a lifetime annuity. Married individuals receive a reduced benefit paid in the form of a qualified joint and survivor annuity. Pension benefits under the ERISA Excess Plan and the SERP may be paid as a lump sum.

Messrs. DeBenedictis, Kropilak, Kyriss, Smeltzer and Stahl are earning benefits under the ERISA Excess Plan, and are fully vested in those benefits. Mr. DeBenedictis is also earning benefits under the SERP, and is fully vested. Messrs. DeBenedictis, Kyriss, and Stahl are currently eligible to retire under the ERISA Excess plan and Mr. DeBenedictis is currently eligible to retire under the SERP.

ACTUARIAL ASSUMPTIONS USED TO DETERMINE VALUES IN THE PENSION BENEFITS TABLE

The amounts shown in the Pension Benefit Table above are actuarial present values of the benefits accumulated through the date shown. An actuarial present value is calculated by estimating expected future payments starting at an assumed retirement age, weighting the estimated payments by the estimated probability of surviving to each post-retirement age, and discounting the weighted payments at an assumed discount rate to reflect the time value of money. The actuarial present value represents an estimate of the amount which, if invested today at the discount rate, would be sufficient on an average basis to provide estimated future payments based on the current accumulated benefit. Assumptions used to determine the values are the same as those disclosed on Aqua America's financial statements as of those dates with the exception of the assumed retirement age and the assumed probabilities of leaving employment prior to retirement. Retirement was assumed to occur at the earliest possible unreduced retirement age for each plan in which the executive participates. For purposes of determining the earliest unreduced retirement age, service was assumed to be granted until the actual date of retirement. Actual benefit present values will vary from these estimates depending on many factors, including an executive's actual retirement age. The key assumptions included in the calculations are as follows:

	December 31, 2007	December 31, 2006
Discount rate	6.25%	5.90%
Retirement ages:		
Mr. DeBenedictis	65	65
Mr. Kropilak	62	62
Mr. Kyriss	62	62
Mr. Smeltzer	62	62
Mr. Stahl	62	62
Termination, pre-retirement mortality and disability rates	None	None
Post-Retirement Mortality	RP 2000 Table	RP 2000 Table
Form of payment	Single life annuity	Single life annuity

NONQUALIFIED DEFERRED COMPENSATION

The following table sets forth information regarding contributions to, earnings on, withdrawals from and balances as of the end of 2007 for our nonqualified Executive Deferral Plan.

Nonqualified Deferred Compensation

Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$)(1)	Aggregate Earnings in Last FY (\$)(2)(3)	Aggregate Withdrawals/ Distributions (\$)(4)	Aggregate Balance at Last FYE (\$)
N. DeBenedictis	□	1,200	158,039	□	1,494,662
D. Smeltzer	16,537	1,200	3,277	□	46,354

R. Stahl	4,500	1,200	11,225	□	59,382
K. Kyriss	□	□	□	□	□
M. Kropilak	□	□	□	□	□

Notes:

- (1) Amounts contributed by the Company to the Executive Deferral Plan representing the amount of the Company's Matching Contribution under the Company's 401(k) Plan that could not be contributed to the 401(k) Plan as a result of the Internal Revenue Code restrictions on the amount a participant can contribute as a salary deferral to the plan.
- (2) Amounts deferred accumulate interest at the rate of the prime interest rate plus 1% or may be paid into a flexible premium universal life insurance policy. Any cash value in the life insurance policies may be invested in one or more investment funds offered by the insurance company. Earnings shown in this column include the increase in the cash value of the insurance policy during the year.
- (3) The portion of earnings shown in this column that are included in the Changes in Pension Value and Non-Qualified Deferred Compensation Earnings for the named executive officers in the Summary Compensation Table are: \$78,942 for Mr. DeBenedictis; \$1,182 for Mr. Smeltzer; and \$8,646 for Mr. Stahl.
- (4) Amounts paid from a participant's account to pay the premiums on the participant's life insurance policy under the plan are not considered a withdrawal or distribution. In 2007, these amounts were \$25,000 for Mr. DeBenedictis, and \$4,500 for Mr. Stahl.

Employees with total projected W-2 compensation for 2007 in excess of \$115,000 are eligible to participate in the Company's Executive Deferral Plan for 2008. Participants may defer up to 100% of their salary and 100% of their non-equity incentive compensation under the Company's Annual Cash Incentive Compensation Plan. The participant's account balance is payable at the participant's option either promptly after the participant termination of service with the Company or, if the participant's account balance exceeds \$25,000, in 12 annual installments. The executive officers, including the named executive officers, may not commence the receipt of their account balances for amounts deferred in 2005 or thereafter and the earnings on these deferrals sooner than the first day of the seventh month following the date of the executive's separation from employment. For amounts contributed to the Plan in 2005 and thereafter, the participant must elect the timing for the payment of the account balance for the amounts deferred at the time the deferral election is made.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

SEVERANCE AND EMPLOYMENT AGREEMENTS

All salaried employees, including the named executive officers, are covered by our severance policy. The policy provides eligible employees, subject to the terms of the policy, with a severance benefit of two weeks of the employee's weekly base salary per credited year of service if the employee's employment is terminated because the employee's position is discontinued due to business conditions or a reorganization and no comparable employment is available and offered to the employee. The policy provides a minimum severance benefit of four weeks and a maximum benefit of 26 weeks of the employee's base weekly salary at the time of termination and a minimum of

one month of continued medical benefits and a maximum of six months of continued medical benefits following termination to eligible employees. Employees must sign a general release in order to receive these severance

benefits. These benefits are available to all eligible salaried employees.

Our Chief Executive Officer is the only named executive officer who has an employment agreement with the Company. Under the terms of the employment agreement, if his employment is terminated by the Company for any reason other than his disability, death or for cause, he will be entitled to receive a severance payment equal to twelve months of his base salary paid in twelve equal monthly installments without offset.

CHANGE-IN-CONTROL AGREEMENTS

The Company maintains change-in-control agreements with certain executives, including the named executive officers in the Summary Compensation Table. Payments under these agreements are triggered if the covered executive’s employment is terminated other than for cause or the executive terminates employment for good reason, as defined in the agreements, within two years after a change-in-control of the Company. In addition, the agreement covering Mr. DeBenedictis permits him to trigger the payments under his agreement if he terminates his employment within 12 months after a change-in-control if he determines that circumstances have so changed with respect to the Company that he is no longer able to effectively perform his duties and responsibilities. Mr. DeBenedictis’s payment is also subject to him agreeing to a twelve month non-compete covenant.

Payments and benefits under the change-in-control agreements consist of the payment of a multiple of 2 or 3 times the named executive officer’s Base Compensation, as defined in the agreements, the continuation of certain health and welfare benefits for a period of 2 or 3 years and other benefits which are summarized in the following table for the named executive officers. In addition, Mr. DeBenedictis is entitled under his change-in-control agreement to the transfer, without requiring a cash payment from him, of a life insurance policy.

The following table provides a summary of the benefits to which each named executive officer would be entitled under the change-in-control agreements.

Multiple of Base	Benefit Continuation	Continued Use of	Continued
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