

AQUA AMERICA INC  
Form DEF 14A  
April 10, 2007

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   |  |
| <input type="checkbox"/> Definitive Additional Materials   |  |

AQUA AMERICA, INC.

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(Name of Registrant as Specified In Its Charter)  
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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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- No fee required.  
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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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schedule and the date of its filing.

1) Amount previously paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**To Be Held May 24, 2007**

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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 **Springfield Country Club, 400 West Sproul Road, Springfield, PA 19064** at 10:00 A.M., local time, on Thursday, May 24, 2007, for the following purposes:

1. To elect three directors to the class of directors for terms expiring at the 2010 Annual Meeting; and
  2. 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 April 2, 2007 will be entitled to notice of, and to vote at, the Annual Meeting and at any adjournments thereof.

By order of the Board of Directors,

ROY H. STAHL  
*Secretary*

April 10, 2007

**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.**

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

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**PROXY STATEMENT**

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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 24, 2007 and at any adjournments thereof. This proxy statement and the enclosed proxy card are being mailed to shareholders on or about April 10, 2007.

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, 2006, 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 April 2, 2007. The proxy statement and Annual Report are being sent electronically to those shareholders of record as of April 2, 2007 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.

### **VOTING AT THE MEETING**

Holders of shares of the Company's Common Stock of record at the close of business on April 2, 2007 are entitled to vote at the meeting. As of that date, there were 132,571,410 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 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.

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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 not be specified for the election of directors. 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 with respect to the election of directors, but not for any other matter. Proxies received from brokers with respect to shares held in street name, even if such shares are not voted by brokers, will be considered present and entitled to vote at the meeting.

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**

**VOTING ON PROPOSAL NO. 1**

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 August 2006, the Board of Directors, on the recommendation of the Corporate Governance Committee, appointed Mr. Andrew J. Sordoni, III, Chairman of Sordoni Construction Services, Inc., and Ms. Ellen T. Ruff, President of Duke Energy Carolinas, to the Board of Directors. Mr. Sordoni and Ms. Ruff were recommended to the Corporate Governance Committee by Mr. Glanton, Chairman of the Corporate Governance Committee and an independent director. In accordance with the requirements of the Company's Articles of Incorporation and Bylaws to maintain the size of its classes of directors as nearly equal in number as possible, Mr. Sordoni was appointed to the class of directors to be elected at the 2007 Annual Meeting of Shareholders and Ms. Ruff was appointed to the class of directors to be elected at the 2008 Annual Meeting of Shareholders. In accordance with the Company's Corporate Governance Guidelines, the Chairman of the Corporate Governance Committee reported to the Corporate Governance Committee that Richard L. Smoot, William P. Hankowsky and Andrew J. Sordoni, III, the three directors with terms expiring at the 2007 Annual Meeting would be willing to serve on the Board of Directors for an additional three-year term. 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 Committee voted to recommend to the Board of Directors, and the Board of Directors approved, the nomination of Mr. Smoot, Mr. Hankowsky and Mr. Sordoni for election to the class of directors to be elected at the 2007 Annual Meeting of Shareholders.

Therefore, three directors, Messrs. Smoot, Hankowsky and Sordoni, will stand for election by a plurality of the votes cast at the 2007 Annual Meeting, and six directors will continue to serve until either the 2008 or 2009 Annual Meetings, depending on the period remaining in each of their terms. At the 2007 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 willingness to serve and the Company believes that the nominees will be available to serve.

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**The Board of Directors recommends that the shareholders vote FOR the election of Messrs. Smoot, Hankowsky and Sordoni as directors.**

**INFORMATION REGARDING NOMINEES AND DIRECTORS**

For each of the three nominees for election as directors at the 2007 Annual Meeting and the six directors in the classes of directors whose terms of office are to expire either at the 2008 Annual Meeting or the 2009 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**

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 on December 31, 2005 and as Chairman of The Settlement Music School on July 1, 2005. Mr. Smoot is also a director of P.H. Glatfelter Company and Southco Inc. Age: 66.

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: 55.

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, a position he has held since 1974. 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: 63.

**DIRECTORS CONTINUING IN OFFICE WITH TERMS EXPIRING IN 2008**

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 Patam Hospital. Age: 66.

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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 Sovereign Bank, Inc., 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: 61.

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: 58.

#### **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 Roundtable, and Philadelphia Hospital Education Foundation, is Chairman of the Philadelphia Convention and Visitors Bureau, and is a Trustee of Drexel University. Age: 61.

Richard H. Glanton, Esq.  
Philadelphia, PA  
Director since 1995

Mr. Glanton is Senior Vice President of Corporate Development at Exelon Corporation, a position he has held since 2003. 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: 60.

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 April 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: 56.

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## CORPORATE GOVERNANCE

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](http://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 37).

### 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 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 as executive officers.
3. The Company provides water service at normal tariff rates to Liberty Property Trust, UGI Corporation and Exelon Corporation or their affiliates for which Mr. Hankowsky, Mr. Greenberg and Mr. Glanton, respectively, serve 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 serves 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 investment banking fees and pension investment consulting fees to a subsidiary of a company for which Mr. McCaughan was member of the Board of Trustees. Mr. McCaughan reached the normal retirement age for directors of the Company and retired from the Board in 2006. 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 has recently joined 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.

The Board of Directors has appointed Mr. Glanton as the presiding independent director. As the presiding independent director, Mr. Glanton'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.

## **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](http://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 2006. 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 Employee Benefits 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 2006. The Board of Directors encourages all directors to attend the Company's Annual Meeting of Shareholders. All the directors except Dr. Papadakis were in attendance at the 2006 Annual Meeting of Shareholders.

Each of the 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](http://www.aquaamerica.com), or by contacting the Company. (See Additional Information on page 37).

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

<b>Executive Committee</b>	<b>Executive Compensation and Employee Benefits Committee</b>	<b>Audit Committee</b>
Nicholas DeBenedictis*	William P. Hankowsky*	Richard L. Smoot*
Richard H. Glanton, Esq.	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

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\* 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

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recommendations to the entire Board with respect to various matters. The Executive Committee met once in 2006. 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 four times during 2006. 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 34.

#### **Executive Compensation and Employee Benefits Committee**

The Executive Compensation and Employee Benefits 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 and Employee Benefits 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 and Employee Benefits Committee reviews the recommendations of the Company's Chief Executive Officer as to appropriate compensation of the Company's senior executives (other than the Chief Executive Officer) and determines the compensation of such senior executives and the Company's Chief Executive Officer for the ensuing year. The Executive Compensation and Employee Benefits Committee held three meetings in 2006.

#### **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 twice during 2006.

### **OWNERSHIP OF COMMON STOCK**

The following table sets forth certain information as of January 31, 2007 with respect to shares of Common Stock of the Company beneficially owned by each director, nominee for director and executive officer named in the Summary Compensation Table and by 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. 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

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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	11,279	3,240 (3)	14,519
Nicholas DeBenedictis	637,243	106,678 (4)	743,921
Richard H. Glanton	3,909		3,909
Lon R. Greenberg		1,200 (5)	1,200
William P. Hankowsky	3,860		3,860
Karl M. Kyriss	45,138		45,138
Constantine Papadakis	2,402		2,402
Richard R. Riegler	122,434	13,840 (6)	136,274
Ellen T. Ruff			
David P. Smeltzer	135,812		135,812
Richard L. Smoot	13,962	□	13,962
Andrew J. Sordoni	43,686	12,536 (7)	56,222
Roy H. Stahl	242,815	31,890 (8)	274,705
All directors, nominees and executive officers as a group (15 persons)	1,401,709 (9)	193,581(10)	1,595,290 (1.21%)

- (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, 2007 (132,337,086 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, 2007 has not been shown.
- (3) The shareholdings indicated are owned of record by Mrs. Carroll's husband. Mrs. Carroll disclaims beneficial ownership of these shares.
- (4) The shareholdings indicated include 2,782 shares owned by Mr. DeBenedictis's 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 of record by Mr. Riegler's wife. Mr. Riegler disclaims beneficial ownership of those shares.
- (7) 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.
- (8) The shareholdings indicated are owned jointly with Mr. Stahl's wife.
- (9) The shareholdings indicated include 692,842 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, 2007.
- (10) The shareholdings indicated include 193,581 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.

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## 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 Programs

Our executive compensation program is designed to motivate our senior executives to achieve our goals of providing our customers with high quality, cost-effective and reliable water and wastewater services and providing our shareholders with a long-term, above-market 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 executive talent;
- motivate senior 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 senior executives and our financial performance and shareholder value; and
- retain senior executives of significant abilities.

In administering the executive compensation program, the Executive Compensation and Employee Benefits 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.

Our compensation program is designed to reward specific qualities and achievements. Our compensation program rewards:

- talent and experience through competitively benchmarked salaries;
- the assumption of increased job duties and responsibilities through promotions, with commensurate increases in compensation when appropriate;

- 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 through annual cash incentive awards under our Annual Cash Incentive Compensation Plan;
- enhancing our financial health and performance and achieving increases in shareholder value through equity incentives under our Equity Compensation Plan; and
- longevity and retention through competitive retirement benefits and equity incentives under our Equity Compensation Plan.

In addition, our compensation program attempts to attain stability and dedication to shareholder value in the event of a fundamental transaction affecting the ownership of Aqua America through certain change-in-control agreements with selected senior executives.

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### **Elements of Aqua America's Compensation Program**

Our executive compensation program is comprised of the following six elements:

- Base Salary
- Annual Cash Incentive Awards (referred to as Non-Equity Incentive Plan Compensation in the Summary Compensation Table on page 18)
- Equity Incentives
- Retirement Benefits
- Non-Qualified Deferred Compensation Plans
- Change-in-Control Agreements

As used in this description, the total of base salary, annual cash incentive compensation and equity incentive compensation for each executive is referred to as "Total Direct Compensation". We believe that the elements of our compensation program are important components of a well-designed, balanced, competitive compensation program.

### ***Determination of Competitive Compensation***

The Compensation Committee has retained Towers Perrin, a nationally-recognized compensation consulting firm, to assist the Committee in designing and assessing the competitiveness of our executive compensation program. In determining the relative weighting of salary, annual cash incentives and equity incentive elements of the compensation program and the target level of these elements of compensation for our executives, the Compensation Committee considers survey data from companies in the water utility industry, the broader utility industry and general industry (the "Composite Market") compiled by Towers Perrin. The water utility industry data was drawn from the SAJE Consulting Compensation Survey, and the broader utility industry and general industry data was drawn from Towers Perrin's executive compensation database. The Composite Market represents an equal blending of the utility and general industry data. Due to the relatively limited number of investor-owned water utility companies, the Compensation Committee believes that this broad survey data approach provides reasonable and reliable data for use in determining competitive compensation levels. Towers Perrin develops competitive compensation benchmarks for each of the named executive officers using this survey data. Towers Perrin uses regression analysis to size-adjust the survey data for each named executive officer's scope of responsibilities, where possible.

The Compensation Committee has targeted competitive compensation levels for salaries and annual cash incentive awards at the 50th percentile of compensation levels for utility companies and competitive

compensation levels for equity incentives at the 50th percentile of a 50/50 mix 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.

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. For 2006, the portion of the target annual Total Direct Compensation for the named executive officers attributable to base salary ranges from 29% for our Chief Executive Officer to 62% for other executives, and the portion attributable to cash and equity incentives ranges from 71% for our Chief Executive Officer to 38% for other executives. 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.

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The senior executive officers of Aqua America, including the named executive officers, are divided into five salary grades. 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 are established for each salary grade based on information provided by Towers Perrin regarding competitive levels in the Composite Market for these elements of the compensation program.

#### **Base Salary**

A competitive base salary is necessary to attract and retain a talented and experienced workforce. Individual salaries are considered for adjustment annually and adjustments are based on general movement in external salary levels, the executive's salary in relation to the midpoint of his or her salary grade, individual performance, and changes in individual duties and responsibilities. We use external salary surveys and competitive salary benchmarks from the 50th percentile of utility companies in the Composite Market to determine the appropriate annual target merit increase percentage for executives.

#### **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 an 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, is generally within 15% of the total cash compensation of the 50th percentile of the utility companies in the Composite Market.

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

$$\text{Salary} \times \text{Target Incentive Percentage} \times \text{Company Factor} \times \text{Individual Factor}$$

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 performance 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 financial components of their annual cash incentive compensation. EBITD was chosen as the appropriate 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. Over the past five years, the Company Factors for the named executive officers have ranged from 78% to 116%. For the annual cash incentive award for 2006, for Messrs. DeBenedictis, Smeltzer, Stahl and Riegler, whose Company Factor is based on Aqua America's budgeted net income, the Company Factor was 78%, based on the level of net income achieved by Aqua America in 2006. For Mr. Kyriss, whose Company Factor is based 20% on Aqua America's budgeted net income and 80% on EBITD for Aqua America's Mid-Atlantic operations, the Company Factor was 87%, based on the level of net income achieved by Aqua America and the level of EBITD achieved by Aqua America's Mid-Atlantic operations in 2006.

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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 at least 10 objectives each year and each objective is assigned a point rating. The executive must achieve 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 the expected level of individual performance is 90 points, resulting in an Individual Factor of 90%, although up to 110 points can be earned for measurable achievement above target 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 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 each 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 targets consistent with our publicly-announced long-term customer growth goals. For the annual cash incentive award for 2006, the Individual Factors were 150% for Mr. DeBenedictis, 126% for Mr. Smeltzer, 123% for Mr. Stahl, 115% for Mr. Kyriss and 110% for Mr. Riegler.

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 bonus 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. In the event of a significant restatement of our financial results caused by executive fraud or willful misconduct, the Board will 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.

### ***Equity Incentives***

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. The purpose of the Equity Compensation Plan is 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. The Equity Compensation Plan also provides us the ability to attract and retain talented employees.

As part of its review of the total compensation package for our senior 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 best link executive long-term incentives to the enhancement of our financial stability and performance and shareholder interests. The Compensation Committee selects a target dollar amount of equity incentives for each executive based on the target equity incentive levels at the 50<sup>th</sup> percentile of a 50/50 mix of utility companies and general businesses in the Composite Market.

In determining the types of equity compensation to be awarded, 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

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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 officers and senior executives each year.

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 amounts accumulated 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 the balance of the applicable dividends on Aqua America's dividend payment dates through the end of the accumulation period. The performance criteria for determining the payment date consist of achieving our budgeted net income, increasing the dividend paid to shareholders, achieving a total return to shareholders over five years in excess of our peer group as shown in the total return to shareholders graph in the Annual Report to Shareholders and achieving a customer growth target. The performance criteria are the same for all executives that are granted dividend equivalents 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 Compensation Committee has historically made annual awards of restricted stock to our Chief Executive Officer, primarily as a retention tool. In recent years, the Compensation Committee has also made limited restricted stock grants to other senior executives, also primarily as a retention tool. 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.



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 and to make the grant date of equity compensation grants (options, dividend equivalents and restricted stock) the date that the Compensation Committee approves the grants. 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. The Compensation Committee has historically used the average of the high and low trading prices of our Common Stock on the New York Stock Exchange on the date of grant to determine the fair market value and, therefore, the exercise price of options. Beginning in 2007, the Compensation Committee will use the closing price of our Common Stock on the New York Stock Exchange on the date of grant to determine the exercise price of options granted.

### ***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.

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### ***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. Management may defer their salary and annual cash incentives and the directors may defer any portion of their compensation. 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, 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 senior executive officers, 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 26 to 32.) 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. 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 Consideration on Executive Compensation Decisions on page 16. Payment under the Chief Executive Officer's Agreement is, however, contingent on his agreement to a 12 month non-compete agreement.

### **The Role of Management in the Executive Compensation Process**

Our executive management team assists the Compensation Committee by preparing schedules showing the present compensation of executives and compiling the recommended salary grade midpoints, target annual cash incentives and target range of equity compensation awards from Towers Perrin, the Compensation Committee's consultant. Executive management also gathers and presents the supporting information for the individual executives' performance against their objectives for the Individual Factor under the Annual Cash Incentive Compensation Plan. 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 acceleration or deferral 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

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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 retained by the Executive 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 in enhancing value for our shareholders, 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. Kyriss, who was first designated as an executive officer in 2006, met these guidelines as of the end of 2006.

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## REPORT OF THE EXECUTIVE COMPENSATION AND EMPLOYEE BENEFITS COMMITTEE

William P. Hankowsky, Lon R. Greenberg and Ellen T. Ruff serve on the Executive Compensation and Employee Benefits Committee. Ms. Ruff joined the Committee in December 2006.

The Committee has reviewed and discussed the Compensation Discussion and Analysis on pages 10 through 16 with management and with the Committee's consultant. 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 year ended December 31, 2006 and the Company's proxy statement for the Annual Meeting of Shareholders.

Respectfully submitted,

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

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## 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, 2006.

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)	Stock Awards (\$)(2)(4)	Option Awards (\$)(3)(5)	Non-Equity Incentive Plan Compensation (\$)(1)(6)	Change in	All Other	To
							Pension Value and Non-qualified Deferred Earnings (\$)(7)		
Nicholas DeBenedictis Chief Executive Officer (Principal Executive Officer)	2006	417,120	□	272,610	424,748	346,909	333,285	189,688	1,984,000
David P. Smeltzer Chief Financial Officer (Principal Financial Officer)	2006	217,810	□	102,090	98,386	76,077	54,092	47,549	596,000
Roy H. Stahl Chief Administrative Officer and General Counsel	2006	247,167	□	120,880	130,266	96,398	114,803	66,833	776,000
Karl M. Kyriss	2006	189,215	□	□	66,505	58,033	83,568	28,273	425,000

President Aqua Mid-Atlantic Richard R. Riegler V.P. Engineering and Environmental Affairs	2006	183,361	□	6,993	66,787	39,475	54,630	34,167	385
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(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 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 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 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 the following number of shares of restricted stock taken into account pursuant to SFAS 123R in 2006 but were awarded in 2004, 2005 and 2006: 12,611 shares to Mr. DeBenedictis; 6,056 shares to Mr. Stahl; 4,944 shares to Mr. Smeltzer; and 444 shares to Mr. Riegler

(5) Amounts are based on 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; 12,916 options for Mr. Kyriss; and 13,669 options for Mr. Riegler.

(6) Non-Equity Plan Incentive Compensation is shown for the year in which the compensation is earned, regardless of when paid.

(7) Includes: (a) earnings on deferred compensation that are above-market (above 120% of the federal long-term rate) of \$40,440 for Mr. DeBenedictis; \$1,246 for Mr. Stahl; \$617 for Mr. Smeltzer; and \$42 for Mr. Riegler; and (b) changes in the cash surrender value of life insurance policies under the deferred compensation plan, including \$32,369 for Mr. DeBenedictis; \$3,619 for Mr. Stahl; and \$5,264 for Mr. Riegler. 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 in 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.

- (8) Includes: (a) dividends on restricted stock grants pending their vesting or forfeiture, including \$12,268 for Mr. DeBenedictis; (b) 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; (c) dividend equivalents paid to the named executives during the year of \$164,876 to Mr. DeBenedictis; \$53,348 to Mr. Stahl; \$26,313 to Mr. Smeltzer; \$20,860 to Mr. Kyriss; and \$25,902 to Mr. Riegler; (d) the premiums on group term life insurance benefits for the named executives; and (e) 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 2006.

**Grants Of Plan-Based Awards**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(5)			All Other Stock Awards:	All Other Option Awards:	Exercisable or BPS or Price
		Threshold (\$)(2)	Target (\$)(3)	Maximum (\$)(4)	Threshold (#)	Target (#)	Maximum (#)	Number of Shares or Units	Number of Securities	
									Underlying Options (#)(6)	
N. DeBenedictis	3/7/2006	103,776	296,503	555,944	n/a	15,000(9)	n/a	0	55,000	29.
D. Smeltzer	3/7/2006	27,028	77,224	144,794	n/a	5,000(9)	n/a	0	15,000	29.
R. Stahl	3/7/2006	35,053	100,151	187,783	n/a	5,000(9)	n/a	0	17,000	29.
K. Kyriss	3/7/2006	20,301	58,004	108,758	n/a	0	n/a	0	12,000	29.
R. Riegler	3/7/2006	16,103	46,008	86,265	n/a	0	n/a	0	10,000	29.

(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 has historically been the average of the high and low sales 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 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.

Non-equity incentive plan awards under the Company's Annual Cash Incentive Compensation Plan are calculated using the following formula:

**Salary x Target Incentive Percentage x Company Factor x Individual Factor**

The Individual Factor can range from 0 to 150 percent depending on the individual's performance against his or her annual objectives. The individual must achieve at least 70 points in order to receive an award for the year. The Company Factor can range from 0 to 125 percent depending on the performance of the Company or the executive's business unit against established financial targets for the year. If the Company or the business unit achieves 90% of its financial target the Company Factor would be 50%. If the Company or business unit achieves 110% or more of its financial target, the Company Factor would be 125%. The Company or business unit must achieve at least 90%

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of its financial target for the executive to receive an award for the year. 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. 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 at the time of grant. 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. 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.

The Company has historically granted stock options at an exercise price equal to the average of the high and low sales price for the Company's Common Stock on the date of grant. Although the Company believes that this formula results in a fair exercise price for stock options, in accordance with general guidance from the SEC, the Company will begin using the closing price for the Company's Common Stock on the date of grant as the exercise price for stock options starting in 2007.

**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 2006.

**Outstanding Equity Awards at Fiscal Year-End**

Name	Option Awards			Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unearned 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 (#)
N. DeBenedictis	23,286			\$ 13.7550	5/15/2013			29,222 (1)
	31,111	31,112 (5)		\$ 16.1475	3/1/2014			
	31,112	62,221 (6)		\$ 18.3338	2/28/2015			
	□	55,000 (7)		\$ 29.4600	3/7/2016			
D. Smeltzer	4,483			\$ 7.0425	3/6/2010			10,335 (2)
	12,121			\$ 11.4600	3/6/2011			
	20,831			\$ 12.4875	6/17/2012			
	20,831			\$ 13.7550	5/15/2013			
	13,333	6,667 (5)		\$ 16.1475	3/1/2014			
	6,666	13,333 (6)		\$ 18.3338	2/28/2015			
	□	15,000 (7)		\$ 29.4600	3/7/2016			

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**Option Awards**

**Stock Awards**

**Equity Incentive Plan**

**Number of**

**Market Value of**

**Equity Incentive Plan Awards: Number of**

**Equity Incentive Plan Awards: Market Value of Unearned**

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Name	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Shares or Units of Stock That Have Not Vested (#)	Shares or Units of Stock That Have Not Vested (\$)	Unearned Shares, Units or Other Rights That Have Not Vested (#)	Shares or Units of Stock That Have Not Vested (\$)
Name	Exercisable	Unexercisable	(#)	(#)	(#)	(#)	(#)	(#)	(#)
R. Stahl								11,890 (3)	\$ 270
	15,636			\$ 8.4975	3/2/2008				
	12,001			\$ 8.2200	3/1/2009				
	13,036			\$ 7.0425	3/6/2010				
	27,962			\$ 11.4600	3/6/2011				
	29,998			\$ 12.4875	6/17/2012				
	29,998			\$ 13.7550	5/15/2013				
	20,000	10,000 (5)		\$ 16.1475	3/1/2014				
	8,889	17,777 (6)		\$ 18.3338	2/28/2015				
	□	17,000 (7)		\$ 29.4600	3/7/2016				
K. Kyriss									
	13,333			\$ 12.4830	3/3/2013				
	8,887	4,445 (5)		\$ 16.1475	3/1/2014				
	4,445	8,887 (6)		\$ 18.3338	2/28/2015				
	□	12,000 (7)		\$ 29.4600	3/7/2016				
R. Riegler								446 (4)	\$ 10,1
	5,193			\$ 8.4975	3/2/2008				
	1,872			\$ 8.2200	3/1/2009				
	20,830			\$ 11.4600	3/6/2011				
	16,665			\$ 12.4875	6/17/2012				
	16,664			\$ 13.7550	5/15/2013				
	8,887	4,446 (5)		\$ 16.1475	3/1/2014				
	4,445	8,887 (6)		\$ 18.3338	2/28/2015				
	□	10,000 (7)		\$ 29.4600	3/7/2016				

- (1) Of Mr. DeBenedictis □ 29,222 restricted shares of common stock, 5,777 vest on February 28, 2007, 5,000 vest on March 7, 2007, 2,667 vest on March 19, 2007, 5,778 vest on February 28, 2008, 5,000 vest on March 7, 2008 and 5,000 vest on March 7, 2009.
- (2) Of Mr. Smeltzer □s 10,335 restricted shares of common stock, 1,777 vest on February 28, 2007, 1,666 vest on March 7, 2007, 1,779 vest on March 19, 2007, 1,779 vest on February 28, 2008, 1,667 vest on March 7, 2008 and 1,667 vest on March 7, 2009.
- (3) Of Mr. Stahl □s 11,890 restricted shares of common stock, 2,222 vest on February 28, 2007, 1,666 vest on March 7, 2007, 2,446 vest on March 19, 2007, 2,222 vest on February 28, 2008, 1,667 vest on March 7, 2008 and 1,667 vest on March 7, 2009.
- (4) Of Mr. Riegler □s 446 restricted shares of common stock, all 446 vest on March 19, 2007.
- (5) 100% vest on March 1, 2007.
- (6) 50% vest on February 28, 2007 and 50% vest on February 28, 2008.
- (7) One third vest on March 7, 2007, one third vest on March 7, 2008 and one third vest on March 7, 2009.



**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 2006 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 2006, 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**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
N. DeBenedictis	152,636	2,093,258	8,444	240,014
D. Smeltzer	11,722	164,873	3,554	100,365
R. Stahl	50,833	1,026,900	4,666	131,656
K. Kyriss	0	0	0	0
R. Riegler	0	0	444	12,317

**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, 2006 and any payments made to the named executive officers in 2006 under those plans.

**Pension Benefits**

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
N. DeBenedictis	Retirement Income Plan for Aqua America, Inc.	15	461,020	0
	ERISA Excess Benefits Plan	15	1,388,624	0
	Supplemental Executive Retirement Plan	22	863,167	0
D. Smeltzer	Retirement Income Plan for Aqua America, Inc.	21	380,324	0
	ERISA Excess Benefits Plan	21	153,511	0
R. Stahl	Retirement Income Plan for Aqua America, Inc.	24	787,457	0
	ERISA Excess Benefits Plan	24	276,920	0
K. Kyriss	Retirement Income Plan for Aqua America, Inc.	12	263,900	0
	ERISA Excess Benefits Plan	12	7,364	0
R. Riegler	Retirement Income Plan for Aqua America, Inc.	37	1,226,434	0
	ERISA Excess Benefits Plan	37	91,409	0

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**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 in 2003. The plan pays benefits for eligible employees based upon a five-year final average plan compensation. 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 plus 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 Riegler 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 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 and (ii) the benefit payable to him under the Retirement Plan and the ERISA Excess Plan.

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, Kyriss, Riegler, 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 Riegler 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, 2006	December 31, 2005
Discount rate	5.90%	5.65%
<b>Retirement ages:</b>		
Mr. DeBenedictis	65	65
Mr. Kyriss	62	62
Mr. Riegler	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

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#### NONQUALIFIED DEFERRED COMPENSATION

The following table sets forth information regarding contributions to, earnings on, withdrawals from and balances as of the end of 2006 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	52,000	700	146,165	□	1,386,542

D. Smeltzer	10,891	□	1,736	□	25,340
R. Stahl	8,000	700	7,125	□	50,576
K. Kyriss	□	□	□	□	□
R. Riegler	4,250	□	5,381	□	10,635

## 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 : \$71,204 for Mr. DeBenedictis; \$586 for Mr. Smeltzer; \$4,814 for Mr. Stahl; and \$5,304 for Mr. Riegler.
- (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 2006, these amounts were \$18,750 for Mr. DeBenedictis, \$4,500 for Mr. Stahl; and \$3,600 for Mr. Riegler.

Employees with total W-2 compensation in excess of \$110,000 are eligible to participate in the Company's Executive Deferral Plan. 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 senior executive officers, 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' payment is also subject to him agreeing to a twelve month non-compete covenant.

Payments 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.

Executive	Multiple of Base Compensation	Benefit Continuation Period	Continued	Outplacement Services	Continued
			Use of Company Car		Office Support
N. DeBenedictis	3	3 years	3 years	1 year	1 year
D. Smeltzer	2	2 years	N/A	6 months	N/A
R. Stahl	2	2 years	N/A	6 months	N/A
K. Kyriss	2	2 years	2 years	6 months	N/A
R. Riegler	2	2 years	2 years	6 months	N/A

For purposes of the change-in-control agreements, Base Compensation is defined as a three-year average of the executive's (1) cash base salary, annual bonus or non-equity incentive award and dividend equivalents accrued for the executive in each year, (2) any amounts deferred by the executive under any non-qualified deferred compensation plan or salary reduction plan in each year, (3) the value of stock option grants in each year, valued on the same basis as the value of stock option grants set forth in the Grants of Plan-Based Awards Table on page 20, and (4) the value of grants of restricted stock vesting in each year, valued on the basis of the fair market value of restricted stock vesting in each year.

The payment of the multiple of Base Compensation would be made in a lump sum within 15 days after the executive's termination as defined under the agreements. Each executive is required to execute a standard release of the Company as a condition to receiving the payment under the agreement.

Under our Equity Compensation Plan, certain unvested equity incentives become immediately vested upon a change-in-control regardless of whether the grantee is terminated or not. Thus, under our Equity Compensation Plan, upon a change-in-control, any unvested stock options become immediately vested, any accrued but unpaid dividend equivalents become immediately payable, and any unvested restricted stock becomes immediately vested. The vesting of these equity incentives is applicable to all grantees under the Plan. The value of vested stock options are not included in the tables below.

For purposes of the change-in-control agreements and the vesting of unvested equity incentives as described above, a change-in-control, subject to certain exceptions means:

- (1) any Person (including any individual, firm, corporation, partnership or other entity except Aqua America, any subsidiary of Aqua America, any employee benefit plan of Aqua America or of any subsidiary, or any person or entity organized, appointed or established by Aqua America for or pursuant to the terms of any such employee benefit plan), together with all affiliates and associates of such person, shall become the beneficial owner in the aggregate of 20% or more of the Common Stock of Aqua America then outstanding;
- (2) during any twenty-four month period, individuals who at the beginning of such period constitute the Board of Directors of Aqua America cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by Aqua America's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or
- (3) there occurs a sale of substantially all of the assets of Aqua America or its liquidation is approved by a majority of its shareholders or Aqua America is merged into or is merged with an unrelated entity such that following the merger the shareholders of Aqua America no longer own more than 51% of the resultant entity.

Copies of these change-in-control agreements for Messrs. DeBenedictis, Smeltzer, Stahl and Riegler have been filed with the SEC as Exhibits to Aqua America's Annual Report on Form 10-K for the year ended December 31, 2001. Mr. Kyriss' agreement was entered into in March 2007 and will be filed as an Exhibit to Aqua America's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

## RETIREMENT AND OTHER BENEFITS

Under the terms of our qualified and non-qualified defined benefit retirement plans, eligible salaried employees, including the named executive officers are entitled to certain pension benefits upon their termination, retirement, death or disability. In general, the terms under which benefits are payable upon these triggering events are the same for all participants under the qualified and non-qualified plans. The present value of accumulated pension benefits, assumed payable at the earliest unreduced age, for the named executive officers is set forth in the Pension Benefits Table on page 23. The pension benefit values included in the tables below reflect the incremental value above the amounts shown in the Pension Benefits Table for benefits payable upon each triggering event from all pension plans in the aggregate.

Aqua America, Inc. sponsors a postretirement medical plan to provide company subsidies toward retiree medical benefits for employees hired prior to certain dates in 2003. Under the postretirement medical plan, employees are eligible to retire upon attainment of age 55 and completion of 15 years of service. Upon retirement, eligible participants are entitled to receive subsidized medical benefits prior to attainment of age 65 where the subsidy provided is based upon age and years of service upon retirement. Upon attainment of age 65, eligible participants are entitled to receive employer contributions into a premium reimbursement account which may be used by the retiree in paying medical and prescription drug benefit premiums. The postretirement medical benefits shown in the tables below show the total present value of the postretirement medical benefits payable from the Company under each of the triggering events. Assumptions used to determine the values are the same as those disclosed on Aqua America's financial statements with the exception of the assumed immediate termination, retirement, death or disablement. Note that participants not eligible to receive benefits if leaving under a triggering event as of December 31, 2006 are shown with zero value.

Upon termination for any reason, the participants in our Executive Deferral Plan, including the named executive officers, would be entitled to a distribution of their account balances as set forth in the Nonqualified Deferred Compensation Table on page 26, subject to the restrictions under the Plan described on page 26. The value of these account balances are not included in the tables below. The named executive officers are also eligible for the same death and disability benefits of other eligible salaried employees. These common benefits are not included in the tables below.

Under the terms of our Equity Compensation Plan, upon termination of a grantee's employment as a result of retirement, disability or death, the period during which the options may be exercised shall not exceed: (i) one year from the date of such termination of employment in the case of death; (ii) two years from the date of such termination in the case of permanent and total disability (within the meaning of Section 22(e)(3) of the Code) or retirement; and (iii) three months from the date of such termination of employment in the case of other disability; provided, however, that in no event shall the period extend beyond the expiration of the option term. To the extent that any option is not otherwise exercisable as of the date on which the grantee ceases to be employed by the Company or any subsidiary, the unexercisable portion of the option shall terminate as of such date. The Compensation Committee, in its sole discretion, may determine that any portion of an option that has not become exercisable as of the date of the grantee's death, termination of employment on account of permanent and total disability (within the meaning of Section 22(e)(3) of the Code) or other termination of employment may also be exercised by a grantee, or in the case of death, a grantee's legal representative or beneficiary. If a grantee's regular full-time employment terminates prior to the vesting of a restricted stock grant, the restricted stock grant terminates as to all unvested shares. The Compensation Committee may, however, provide for complete or partial exceptions to this requirement as it deems equitable. Except as otherwise determined by the Compensation Committee, in the event of a grantee's termination from regular full-time employment prior to the end of the applicable performance period for a dividend equivalent grant, no payment of the dividend equivalent amount shall be made until the end of the applicable performance period and no payments shall be made to any grantee whose regular full-time employment terminates prior to the end of the applicable performance period for any reason other than retirement, death or total disability.

The total estimated value of the payments that would be triggered by a termination following a change-in-control, a termination other than for cause without a change-in-control, retirement, death or disability for the named executive officers calculated assuming that the triggering event for the payments occurred on December 31, 2006 and assuming a value for our Common Stock as of December 31, 2006 for purposes of valuing the vesting of the equity incentives are as follows:

#### Nicholas DeBenedictis

Payments and Benefits Upon Separation	Change-in-				
	Control	Termination	Retirement	Death	Disability
	\$	\$	\$	\$	\$
<b>Triggered Payments and Benefits</b>					
Severance Payment	4,695,754	423,576			
Acceleration of option vesting	465,936				
Payment of accrued dividend equivalents	88,126		88,126	88,126	88,126
Vesting of restricted stock	665,700				
Continuation of welfare benefits	32,828	3,434			
Use of company car	29,325				
Outplacement services	30,000				
Office support	52,026				
Transfer of life insurance policy	300,000				
<b>Vested Retirement Benefits</b>					
Incremental pension value above that included in the Pension Benefits Table	555,607	555,607	555,607		428,663
Present value of retiree medical benefits					
<b>Total</b>	<b>6,915,302</b>	<b>982,617</b>	<b>643,733</b>	<b>88,126</b>	<b>516,789</b>

**Roy H. Stahl**

<b>Payments and Benefits Upon Separation</b>	<b>Change-in- Control \$</b>	<b>Termination \$</b>	<b>Retirement \$</b>	<b>Death \$</b>	<b>Disability \$</b>
<b>Triggered Payments and Benefits</b>					
Severance Payment	1,182,779	125,188			
Acceleration of option vesting	145,290				
Payment of accrued dividend equivalents	25,612		25,612	25,612	25,612
Vesting of restricted stock	270,854				
Continuation of welfare benefits	24,068	4,415			
Use of company car	□				
Outplacement services	15,000				
<b>Vested Retirement Benefits</b>					
Incremental pension value above that included in the Pension Benefits Table	208,711	208,711	n/a	□	□
Present value of retiree medical benefits	□	□	n/a	□	□
<b>Total</b>	<b>1,872,314</b>	<b>338,314</b>	<b>25,612</b>	<b>25,612</b>	<b>25,612</b>

**David P. Smeltzer**

<b>Payments and Benefits Upon Separation</b>	<b>Change-in- Control \$</b>	<b>Termination \$</b>	<b>Retirement \$</b>	<b>Death \$</b>	<b>Disability \$</b>
<b>Triggered Payments and Benefits</b>					
Severance Payment	960,496	110,319			
Acceleration of option vesting	103,444				
Payment of accrued dividend equivalents	19,967		19,967	19,967	19,967
Vesting of restricted stock	235,409				
Continuation of welfare benefits	23,580	4,415			
Use of company car	□				
Outplacement services	15,000				
<b>Vested Retirement Benefits</b>					
Incremental pension value above that included in the Pension Benefits Table	96,301	96,301	n/a	□	63,663
Present value of retiree medical benefits	□	□	n/a	□	□
<b>Total</b>	<b>1,454,197</b>	<b>211,035</b>	<b>19,967</b>	<b>19,967</b>	<b>83,630</b>

**Karl M. Kyriss**

<b>Payments and Benefits Upon Separation</b>	<b>Change- in-Control \$</b>	<b>Termination \$</b>	<b>Retirement \$</b>	<b>Death \$</b>	<b>Disability \$</b>
<b>Triggered Payments and Benefits</b>					



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Severance Payment	622,389	89,237			
Acceleration of option vesting	68,958				
Payment of accrued dividend equivalents	13,985		13,985	13,985	13,985
Vesting of restricted stock	□				
Continuation of welfare benefits	18,505	3,414			
Use of company car	29,325				
Outplacement services	15,000				
<b>Vested Retirement Benefits</b>					
Incremental pension value above that included in the Pension Benefits Table	43,475	43,475	43,475	□	253,999
Present value of retiree medical benefits	□	□	□	□	□
<b>Total</b>	<b>811,637</b>	<b>136,146</b>	<b>57,460</b>	<b>13,985</b>	<b>267,984</b>

**Richard R. Riegler**

	Change- in-Control \$	Termination \$	Retirement \$	Death \$	Disability \$
<b>Payments and Benefits Upon Separation</b>					
<b>Triggered Payments and Benefits</b>					
Severance Payment	573,107	92,016			
Acceleration of option vesting	68,964				
Payment of accrued dividend equivalents	13,311		13,311	13,311	13,311
Vesting of restricted stock	10,137				
Continuation of welfare benefits	9,827	1,488			
Use of company car	29,325				
Outplacement services	15,000				
<b>Vested Retirement Benefits</b>					
Incremental pension value above that included in the Pension Benefits Table	□	□	□	□	□
Present value of retiree medical benefits	113,548	113,548	113,548	□	113,548
<b>Total</b>	<b>833,219</b>	<b>207,050</b>	<b>126,859</b>	<b>13,311</b>	<b>126,859</b>

The amounts shown in the tables above reflect the excess of the value of pension benefits under each of the triggering events over the value included in the Pension Benefits Table on page 23. The total values calculated, prior to the offset for the amount shown in the Pension Benefits Table are calculated as set forth below.

**Termination**

Once vested, participants are eligible to receive qualified benefits under the Retirement Plan and nonqualified benefits from ERISA Excess Plan and SERP. Benefits vest upon attaining five years of service. Nonqualified plan benefits for Messrs. DeBenedictis, Kyriss, Riegler, Smeltzer and Stahl are vested and payable from the Retirement Plan as well as the ERISA Excess Plan. Additionally, Mr. DeBenedictis is eligible and vested in his benefit payable from the SERP.

The full value of the benefits payable due to termination is determined based on the assumed timing and form of the benefits payable as follows:

- Mr. DeBenedictis's benefits are payable as an immediate life annuity.
- Mr. Kyriss's benefits are payable as an immediate life annuity.

- Mr. Riegler's benefits are payable as an immediate life annuity.
- Mr. Smeltzer's benefits are payable as a life annuity beginning at age 55.
- Mr. Stahl's benefits are payable as a life annuity beginning at age 55.

Benefits have been reduced for early commencement by 3% per year of commencement prior to age 65.

### **Retirement**

In the case of retirement, the present value of benefits is determined in the same manner as termination. Messrs. DeBenedictis, Kyriss, and Riegler are eligible for early retirement from the qualified Retirement Plan and ERISA Excess Plan. Mr. DeBenedictis may also receive a reduced benefit from the SERP should he retire from Aqua America, Inc. prior to the attainment of age 65. Messrs. Smeltzer and Stahl are not currently eligible to retire.

### **Death**

Vested benefits under the Retirement Plan, ERISA Excess Plan and SERP are payable to the participant's surviving spouse as a single life annuity upon the death of the participant. The benefit will be paid to the spouse as early as the deceased participant's earliest retirement age (age 55 with ten years of service or age 65). The benefit will be equal to 75% of the benefit calculated as if the participant had separated from service on the date of death (assumed to be 12/31/2006 in the table), survived to the earliest retirement age and retired with a qualified contingent annuity. For each of the participants, the total present value of pension benefits payable upon death is less than the amount shown in the Pension Benefits Table. For purposes of the benefit calculations shown, spouses are assumed to be three years younger than the participant.

### **Disability**

If an individual is terminated as a result of a disability with less than ten years of service, the benefits are payable in the same amount and form as an individual who is terminated. Individuals who terminate employment as a result of a disability with at least ten years of service are entitled to future accruals until age 65 (or earlier date if elected by the participant) assuming level future earnings and continued service. The benefits are not payable until age 65, unless elected by the participant for an earlier age. Upon the attainment of age 65, the individual would be entitled to the same options as an individual who retired from the Retirement Plan.

Messrs. DeBenedictis, Kyriss, Riegler, Smeltzer and Stahl have each completed ten years of service. Therefore, for purposes of this present value calculation, participants are assumed to accrue additional service and earnings until age 65, at which time pension payments are assumed to commence.

### **Change-in-Control**

Under a Change-in-Control, the benefits payable to each of the named executives will be the same as those described in the Termination section above.

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## **COMPENSATION OF DIRECTORS**

The following table sets forth the compensation paid to the Aqua America Board of Directors in 2006.

### **Director Compensation**

	<b>Change in Pension Value and</b>
<b>Non-Equity</b>	

Name	Fees Earned or Paid in Cash (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)	Incentive Plan Compen- sation (\$)	Nonqualified Deferred Compensation Earnings (\$)(3)	All Other Compensation (\$)	Total (\$)
Mary C. Carroll	26,500	27,798	0	0	0	0	54,298
Nicholas DeBenedictis (4)	0	0	0	0	0	0	0
Richard H. Glanton	32,500	27,798	0	0	5,871	0	66,169
Lon R. Greenberg	25,500	27,798	0	0	0	0	53,298
William P. Hankowsky	38,500	27,798	0	0	0	0	66,298
John F. McCaughan (5)	7,250	0	0	0	0	0	7,250
John E. Menario (5)	6,500	0	0	0	0	0	6,500
Constantine Papadakis	28,250	27,798	0	0	0	0	56,048
Ellen T. Ruff	13,000	0	0	0	0	0	13,000
Richard L. Smoot	37,000	27,798	0	0	0	0	64,798
Andrew J. Sordoni III	13,250	0	0	0	0	0	13,250

- (1) Includes: (a) an annual cash retainer of \$15,000 per year; (b) Board meeting fees of \$1,500 per meeting; (c) Committee meeting fees of \$1,250 per meeting for meetings of the Audit Committee and \$1,000 per meeting for meetings of the other Committees; and (d) annual Committee Chair retainers of \$7,500 for the Chair of the Audit Committee and \$5,000 for the Chairs of the other Committees. The amount for Mrs. Carroll includes \$2,000 for her attendance at two meetings of the Pension Committee as the Board's representative to this management Committee.
- (2) Directors receive an annual stock grant of 1,200 shares on the first of the month following the Annual Meeting of Shareholders. The value of the grant shown in this column is based on the average of the high and low sales price of the Company's stock on the date of the grant. Ms. Ruff and Mr. Sordoni joined the Board after the stock grants were made in 2006. Mr. McCaughan and Mr. Menario retired prior to the grant date for the stock grant in 2006.
- (3) Consists of earnings on deferred compensation that are above-market (above 120% of the federal long-term rate).
- (4) As an officer of the Company, Mr. DeBenedictis does not receive any fees for his service on the Board of Directors.
- (5) John F. McCaughan and John E. Menario retired from the Board of Directors on March 7, 2006.

### REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the audited financial statements included in the Annual Report with management, including: the quality of the accounting principles, practices and judgments; the reasonableness of significant judgments; the clarity of disclosures in the financial statements; the integrity of the Company's financial reporting processes and controls; and the selection and evaluation of the independent registered public accounting firm, including the review of all relationships between the independent registered public accounting firm and the Company.

The Committee reviewed with the independent registered public accounting firm, who is responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles in the United States of America, their judgments as to the quality of the Company's accounting principles and such other matters as are required to be discussed with the Committee under auditing standards of the Public Company Accounting Oversight Board (including Statement on Auditing Standards No. 61). In addition, the Committee has discussed with the independent registered public accounting firm the firm's independence from management and the Company, including the matters in the written disclosures required by Independence Standards Board Standard No. 1, and considered the compatibility of non-audit services with the accountants' independence.

The Committee discussed with the Company's internal auditors and independent registered public accounting firm, the overall scope and plans for their respective audits. The Committee meets with the internal auditors and independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Committee held four meetings during 2006.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board of Directors approved, the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the SEC.

The Audit Committee has the authority to select, evaluate and, where appropriate, replace the Company's Director of Internal Audit and the Company's independent registered public accounting firm. The Committee has selected PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ending December 31, 2007.

Respectfully submitted,

Richard L. Smoot, Chairman  
 William P. Hankowsky  
 Andrew J. Sordoni, III

The foregoing reports of the Audit Committee and the Executive Compensation and Employee Benefits Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

The Audit Committee of the Company's Board of Directors has selected PricewaterhouseCoopers LLP (PwC) as the Company's independent registered public accounting firm for the year ending December 31, 2007. Representatives of PwC are expected to be present at the Annual Meeting of Shareholders, will have the opportunity to make a statement at the meeting if they desire to do so, and will be available to respond to appropriate questions.

**SERVICES AND FEES**

The following table presents the fees for professional services billed by PwC:

	Fiscal	
	2006	2005
Audit Fees (1)	\$1,516,599	\$1,492,319
Audit-Related Fees	□	□

Tax Fees (2)	26,000	26,000
All Other Fees (3)	3,090	1,500
Total	\$1,545,689	\$ 1,519,819

- (1) Represents fees for any professional services provided in connection with the audit of the Company's annual financial statements (including the audit of internal control over financial reporting), reviews of the Company's interim financial statements included in Form 10-Qs, audits of the Company's subsidiaries and services in connection with the issuance of securities.
- (2) Represents fees for any professional services in connection with the review of the Company's federal and state tax returns and advisory services for other tax compliance, tax planning and tax advice.
- (3) Represents software licensing fees for accounting research tools and disclosure checklists.

Under the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), the Audit Committee is responsible for the appointment, compensation and oversight of the work of the independent registered public accountants. As a result, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accountants in order to assure that such services do not impair the auditor's independence from the Company.

The Audit Committee has established a procedure to pre-approve all auditing and non-auditing fees proposed to be provided by the Company's independent registered public accountants prior to engaging the accountants for that purpose. Consideration and approval of such services occurs at the Audit Committee's regularly scheduled meetings. All fees were approved by the Audit Committee for fiscal year 2006.

**SHAREHOLDER PROPOSALS FOR 2008 ANNUAL MEETING**

Shareholders may submit proposals, which are proper subjects for inclusion in the Company's proxy statement and form of proxy (the "Proxy Materials") for consideration at an Annual Meeting of Shareholders, by following the procedures prescribed by Rule 14a-8 of the SEC. To be eligible for inclusion in the Company's Proxy Materials relating to the 2008 Annual Meeting of Shareholders, proposals must be submitted in writing and received by the Company at the address below by December 12, 2007.

In addition, a shareholder of the Company may wish to propose business to be considered at an Annual Meeting of Shareholders, but not to have the proposed business included in the Company's Proxy Materials relating to that meeting. Section 3.17 of the Company's Bylaws requires that the Company receive written notice of business that

a shareholder wishes to present for consideration at the 2008 Annual Meeting of Shareholders (other than matters included in the Company's Proxy Materials pursuant to the preceding paragraph) no earlier than January 25, 2008 nor later than February 24, 2008. The notice must meet certain other requirements set forth in Section 3.17 of the Company's Bylaws. Copies of the Company's Bylaws can be obtained by submitting a written request to the Secretary of the Company at the address below.

Proposals, notices and request for a copy of our Bylaws should be addressed as follows:

Roy H. Stahl  
 Secretary  
 Aqua America, Inc.  
 762 W. Lancaster Avenue  
 Bryn Mawr, PA 19010

**PROCEDURES FOR NOMINATING OR RECOMMENDING FOR  
NOMINATION CANDIDATES FOR DIRECTOR**

Nominations for election of directors may be made at the Annual Meeting by any shareholder entitled to vote for the election of directors, provided that written notice (the "Notice") of the shareholder's intent to nominate a director at the meeting is filed with the Secretary of the Company prior to the Annual Meeting in accordance with provisions of the Company's Articles of Incorporation and Bylaws.

Section 4.13 of the Company's Bylaws requires the Notice to be received by the Secretary of the Company not less than 14 days nor more than 50 days prior to any meeting of the shareholders called for the election of directors, with certain exceptions. These notice requirements do not apply to nominations for which proxies are solicited under applicable regulations of the SEC. The Notice must contain or be accompanied by the following information:

- (1) the name and residence of the shareholder who intends to make the nomination;
- (2) a representation that the shareholder is a holder of record of voting stock and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the Notice;
- (3) such information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to the SEC's proxy rules had each nominee been nominated, or intended to be nominated, by the management or the Board of Directors of the Company;
- (4) a description of all arrangements or understandings among the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; and
- (5) the consent of each nominee to serve as a director of the Company if so elected.

Pursuant to the above requirements, appropriate Notices in respect of nominations for directors must be received by the Secretary of the Company no later than May 10, 2007.

In addition, the Corporate Governance Committee of our Board of Directors will consider candidates for director recommended by shareholders under certain circumstances. Recommendations of candidates by shareholders should be submitted to the Chairman of the Corporate Governance Committee at least 120 days before the date on which the Company first mailed its Proxy Materials for the prior year's Annual Meeting of Shareholders — that is, with respect to the 2008 Annual Meeting, no later than December 12, 2007.

**CONSIDERATION OF DIRECTOR CANDIDATES**

The Corporate Governance Committee identifies, evaluates and recommends director candidates to our Board of Directors for nomination. The process followed by our Corporate Governance Committee to identify and evaluate director candidates includes requests to current directors and others for recommendations, meetings from time to time to evaluate potential candidates and interviews of selected candidates.

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In considering candidates for director, the Corporate Governance Committee will consider the candidates' personal abilities and qualifications, independence and the diversity of their background, expertise and experience in fields and disciplines relevant to the Company. In addition, candidates should have experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon contributions that they can make to the Company. The Corporate Governance Committee considers all of these qualities when selecting, subject to ratification by our Board of

Directors, candidates for director.

Shareholders may recommend individuals to our Corporate Governance Committee for consideration as potential director candidates by following the procedures set forth above under "Procedures for Nominating or Recommending for Nomination Candidates for Director." The Corporate Governance Committee will evaluate shareholder-recommended candidates in the same manner as it evaluates candidates recommended by others.

### COMMUNICATIONS WITH THE COMPANY OR INDEPENDENT DIRECTORS

The Company receives many shareholder suggestions which are not in the form of proposals. All are given careful consideration. We welcome and encourage your comments and suggestions. Your correspondence should be addressed as follows:

Roy H. Stahl  
Secretary  
Aqua America, Inc.  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010

In addition, shareholders or other interested parties may communicate directly with the independent directors or the presiding independent director by writing to the address set forth below. The Company will review all such correspondence and provide any comments along with the full text of the shareholder's or other interested party's communication to the independent directors or the presiding independent director.

The Independent Directors or Presiding Independent Director  
Aqua America, Inc.  
c/o Secretary  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010

### ADDITIONAL INFORMATION

**The Company will provide without charge, upon written request, a copy of the Company's Annual Report on Form 10-K for 2006, Corporate Governance Guidelines, Committee Charters and Code of Ethical Business Conduct. Please direct your requests to Investor Relations Department, Aqua America, Inc., 762 W. Lancaster Avenue, Bryn Mawr, PA 19010.**

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the "Act") requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities (a 10% Shareholder), to file reports of ownership and changes in ownership with the SEC. Officers, directors and 10% Shareholders are required by the SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it during 2006, the Company believes that all filings required to be made by the reporting persons were made on a timely basis, except for one late Form 4 with respect to a February 15, 2006 stock option exercise and gift of shares by Mr. DeBenedictis.

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### OTHER MATTERS

The Board of Directors is not aware of any other matters which may come before the meeting. However, if any further business should properly come before the meeting, the persons named in the enclosed proxy will vote upon such business in accordance with their judgment.

By Order of the Board of Directors,

ROY H. STAHL  
*Secretary*

April 10, 2007

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*762 W. LANCASTER AVENUE  
BRYN MAWR, PA 19010*

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the Web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Aqua America, Inc., c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.



TO VOTE, MARK BLOCKS BELOW IN BLUE  
OR BLACK INK AS FOLLOWS:

AQUAA1 KEEP THIS PORTION FOR  
YOUR RECORDS

DETACH AND RETURN THIS  
PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**AQUA AMERICA**

**Board of Directors recommends  
that you vote  
FOR all nominees for Director.**

1. Election of  
Directors

**For All** **Withhold All** **For All Except**

To withhold authority to  
vote for any individual  
nominee(s), mark For All  
Except and write the  
number(s) of the  
nominee(s) on the line  
below.

**Nominees**(01) William P.  
Hankowsky  
(02) Richard L.  
Smoot  
(03) Andrew J.  
Sordoni, III

m m m

2. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

**THIS PROXY MUST BE SIGNED EXACTLY AS NAME APPEARS HEREIN.**

**Yes No**

Please indicate if you plan to  
attend this meeting

m m

Signature [PLEASE SIGN  
WITHIN BOX] Date

Signature (Joint Owners)

Date

## ADMISSION TICKET

This is your **ADMISSION TICKET** to the Aqua America, Inc. Annual Meeting of Shareholders to be held Thursday, May 24, 2007, at 10:00 a.m., Eastern Time, at the **Springfield Country Club, 400 West Sproul Road, Springfield, Pennsylvania 19064**. Please present this original ticket for admission at the registration table at the Annual Meeting.

For shareholders who hold shares through a brokerage firm, bank or other holder of record, your admission ticket is the copy of the latest account statement showing the Aqua America, Inc. stock balance. Please present the account statement for admission at the registration table at the Annual Meeting.

### DIRECTIONS

#### **From Center City Philadelphia or Philadelphia International Airport:**

I-95 South to 476 North to Exit 3 (Springfield). Turn right off exit on Baltimore Pike (Route 1). Proceed on Route 1 for approximately 1/2 mile to Route 320 (West Sproul Road). Turn left on Route 320. Springfield Country Club is located 1/2 mile on the left.

-or-

I-76 West to 476 South to Exit 5 Springfield-Media. Turn left off exit. Follow signs for 320 (West Sproul Road). Turn right on Route 320 (West Sproul Road). Springfield Country Club is located 3/4 mile on the right.

#### **From Pennsylvania Turnpike, Bucks County, Montgomery County:**

Exit 20-Mid County off Pennsylvania Turnpike to 476 South towards Chester to Exit 5 marked Springfield-Lima. Turn left off exit onto Route 1 North. Stay in right lane, follow signs for route 320 (West Sproul Road). Turn right on Route 320 (West Sproul Road). Springfield Country Club is located 3/4 mile on the right.

#### **From Delaware:**

I-95 North to exit 7 marked I-476 North (Blue Route). From the Blue Route to Exit 3 Springfield-Media. Turn right off exit onto Baltimore Pike (Route 1). Proceed on Route 1 for approximately 1/2 mile to Route 320 (West Sproul Road). Turn left on Route 320. Springfield Country Club is located 1/2 mile on the left.

#### **From New York/North Jersey:**

Take New Jersey Turnpike to Exit 6/Pennsylvania Turnpike. Follow Turnpike to Exit 20 Mid County Exit. Follow sign for 476/Chester (Blue Route) to Exit 5 marked Springfield-Lima. Turn left off exit onto Route 1 North. Stay in right lane, follow signs for Route 320 (West Sproul Road). Turn right on Route 320 (West Sproul Road). Springfield Country Club is located 3/4 mile on the right.

## **PROXY AQUA AMERICA, INC. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF AQUA AMERICA, INC.**

### **Proxy for Annual Meeting of Shareholders, May 24, 2007**

The undersigned hereby appoints Roy H. Stahl, David P. Smeltzer and Robert A. Rubin, or a majority of them or any one of them acting singly in absence of the others, with full power of substitution, the proxy or proxies of the undersigned, to attend the Annual Meeting of Shareholders of Aqua America, Inc., to be held at the **Springfield Country Club, 400 West Sproul Road, Springfield, Pennsylvania 19064**, at 10:00 a.m. on Thursday, May 24,

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2007 and any adjournments thereof, and, with all powers the undersigned would possess, if present, to vote all shares of Common Stock of the undersigned in Aqua America, Inc. including any shares held in the Dividend Reinvestment Plan of Aqua America, Inc. as designated on the reverse side.

The proxy when properly executed will be voted in the manner directed herein by the undersigned. If the proxy is signed, but no vote is specified, this proxy will be voted: FOR the nominees listed in Item 1 on the reverse side, and in accordance with the proxies' best judgment upon other matters properly coming before the meeting and any adjournments thereof.

**PLEASE MARK, SIGN, DATE AND PROPERLY RETURN THE PROXY CARD USING THE ENCLOSED ENVELOPE, OR VOTE ELECTRONICALLY THROUGH THE INTERNET OR BY TELEPHONE BY FOLLOWING THE INSTRUCTIONS SET OUT ON THE PROXY CARD.**

**CONTINUED AND TO BE SIGNED ON REVERSE SIDE**

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