

AQUA AMERICA INC
Form DEF 14A
April 02, 2010

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:

Preliminary Proxy Statement

Soliciting Material Under Rule
14a-12

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Definitive Proxy Statement

Definitive Additional Materials

AQUA AMERICA, INC.

(Name of Registrant as Specified In Its Charter)

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

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3) Filing Party:

4) Date Filed:

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 13, 2010

TO THE SHAREHOLDERS OF
AQUA AMERICA, INC.:

Notice is hereby given that the Annual Meeting of Shareholders of AQUA AMERICA, INC. (the "Company") will be held at the Drexelbrook Banquet Facility & Corporate Events Center, 4700 Drexelbrook Drive, Drexel Hill, PA 19026 at 10:00 A.M., local time, on Thursday, May 13, 2010, for the following purposes:

1. To elect three directors to the class of directors for terms expiring at the 2013 Annual Meeting;
2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for the 2010 fiscal year;
3. To consider and act upon a shareholder proposal regarding the preparation and publication of a sustainability report, if properly presented at the meeting; and
4. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Only shareholders of record at the close of business on March 15, 2010 will be entitled to notice of, and to vote at, the meeting and at any adjournments or postponements thereof.

By Order of the Board of Directors,

ROY H. STAHL
Secretary

April 2, 2010

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

TABLE OF CONTENTS

	Page
PURPOSE OF MEETING	1
VOTING AT THE MEETING	2
PROPOSAL NO. 1 ELECTION OF DIRECTORS	3
INFORMATION REGARDING NOMINEES AND DIRECTORS	4
CORPORATE GOVERNANCE	11
DIRECTOR INDEPENDENCE	11
BOARD LEADERSHIP STRUCTURE	12
OVERSIGHT OF RISK MANAGEMENT	13
CODE OF ETHICS	13
POLICIES AND PROCEDURES FOR APPROVAL OF RELATED PERSON TRANSACTIONS	13
BOARD AND BOARD COMMITTEES	14
OWNERSHIP OF COMMON STOCK	15
EXECUTIVE COMPENSATION	17
COMPENSATION DISCUSSION AND ANALYSIS	17
COMPENSATION COMMITTEE REPORT	26
CURRENT COMPENSATION	27
RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS	32
NONQUALIFIED DEFERRED COMPENSATION	35
POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL	36
DIRECTOR COMPENSATION	43
REPORT OF THE AUDIT COMMITTEE	44
PROPOSAL NO. 2 RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE COMPANY FOR THE 2010 FISCAL YEAR	45
PROPOSAL NO. 3 SHAREHOLDER PROPOSAL	46
SHAREHOLDER PROPOSALS FOR 2011 ANNUAL MEETING	48
PROCEDURES FOR NOMINATING OR RECOMMENDING FOR NOMINATION CANDIDATES FOR DIRECTOR	48
CONSIDERATION OF DIRECTOR CANDIDATES	49
COMMUNICATIONS WITH THE COMPANY OR INDEPENDENT DIRECTORS	49
ADDITIONAL INFORMATION	50
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	50
OTHER MATTERS	50

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 13, 2010

The Notice of Annual Meeting, Proxy Statement and 2009 Annual Report to Shareholders are available at: <http://ir.aquaamerica.com/>

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

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (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 13, 2010 and at any adjournments or postponements thereof ("2010 Annual Meeting" or the "meeting").

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. In addition, the Company has retained The Altman Group to assist in the solicitation of proxies from (i) brokers, bank nominees and other institutional holders, and (ii) individual holders of record. The fee paid to The Altman Group for normal proxy solicitation is an amount not to exceed \$3,500 plus expenses, which will be paid by the Company. Directors, officers and regular employees of the Company may solicit proxies, although no compensation will be paid by the Company for such efforts.

The Notice of Annual Meeting of Shareholders, this proxy statement and Annual Report to Shareholders for the year ended December 31, 2009, including financial statements and other information with respect to the Company and its subsidiaries (the "Annual Report"), are being sent electronically to those shareholders of record as of March 15, 2010 who requested electronic delivery of these materials and mailed by standard mail, to all other shareholders of record as of March 15, 2010, for the first time on or about April 2, 2010. Additional copies of the Annual Report may be obtained by writing to the Company at the address and in the manner set forth under "Additional Information" on page 50.

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 the class of directors for terms expiring at the 2013 Annual Meeting;
 - ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for the 2010 fiscal year;
 - consider and act upon a shareholder proposal regarding the preparation and publication of a sustainability report, if properly presented at the meeting (the "Shareholder Proposal"); and
 - transact such other business as may properly come before the meeting or any adjournments or postponements thereof.
-

VOTING AT THE MEETING

General

Holders of shares of the Company's Common Stock of record at the close of business on March 15, 2010 are entitled to vote at the meeting. As of that date, there were 136,940,424 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 Company's charter and bylaws provide that 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 Company's bylaws also provide that the affirmative vote of at least three quarters of the votes which all voting 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.

Manner of Voting

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 or any adjournment or postponement thereof for action, the proxy holders will vote the proxies (which confer discretionary authority to vote on such matters) in accordance with their judgment.

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. Attendance at the meeting will not, by itself, revoke a previously granted proxy.

Quorum

A quorum of shareholders is necessary to hold a valid meeting for the transaction of business. The holders of a majority of the shares entitled to vote, present in person or represented by proxy at the meeting, constitute a quorum. Abstentions and "broker non-votes" are counted as present and entitled to vote for purposes of determining a quorum.

Broker Non-Votes

A "broker non-vote" occurs when a bank, broker or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power under New York Stock Exchange ("NYSE") rules for that particular item and has not received instructions from the beneficial owner. If you are a beneficial owner, your bank, broker or other holder of record is permitted under NYSE rules to vote your shares on the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the 2010 fiscal year, even if the record holder does not receive voting instructions from you. The record holder may not vote on the election of directors or the Shareholder Proposal without instructions from you. Without your voting instructions on these matters, a broker non-vote will occur.

Proposal No. 1 – Election of Directors

Under the Company’s charter and bylaws, directors are elected by a plurality of the votes cast at the meeting. A plurality means that the three director nominees receiving the most votes FOR election to a director position will be elected as directors. Votes may be cast FOR or WITHHOLD for each nominee. WITHHOLD votes and broker non-votes will be excluded entirely from the vote to elect directors and will have no effect, other than for purposes of determining the presence of a quorum. Thus, the three director nominees with the most FOR votes will be elected at the meeting.

Proposal No. 2 – Ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for the 2010 fiscal year

Under the Company’s charter and bylaws, the affirmative vote of a majority of the votes cast by those shareholders present in person or by proxy at the meeting is required to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for the 2010 fiscal year. Abstentions will not be considered votes cast on this proposal and, therefore, will have no effect, other than for purposes of determining the presence of a quorum.

Proposal No. 3 – Shareholder Proposal

Under the Company’s charter and bylaws, the affirmative vote of at least three quarters of the votes which all voting shareholders, voting as a single class, are entitled to cast is required to approve this proposal because it is not being brought before the meeting on the recommendation of a majority of the Board of Directors. Abstentions and broker non-votes will not be considered votes cast on this proposal and, therefore, will have no effect, other than for purposes of determining the presence of a quorum.

Since the Shareholder Proposal is presented in the form of a request to the Board of Directors, approval of the Shareholder Proposal will not have the effect of requiring the Company to prepare a sustainability report, but will represent simply an expression of the wishes of the shareholders on that subject. The Board of Directors would still be required by statute to decide whether it would be in the best interests of the Company to prepare a sustainability report and could decide in the exercise of its business judgment not to have the Company prepare such a report or to prepare a report in form and substance different than as requested in the Shareholder Proposal.

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

(PROPOSAL NO. 1)

ELECTION OF DIRECTORS

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

In April, 2009, Dr. Constantine Papadakis, a member of the Board of Directors since 2005, passed away unexpectedly. In July, 2009, Mr. Glanton, Chairman of the Corporate Governance Committee, recommended to the Corporate Governance Committee that Mr. Mario Mele, President of Fidelio Insurance Company, be appointed to the Board of Directors to fulfill the unexpired term of Dr. Papadakis on the Board of Directors. At its meeting on July 31, 2009, the Corporate Governance Committee unanimously approved the nomination of Mr. Mele for appointment to the Board of Directors and recommended his appointment to the Board of Directors. On August 4, 2009, the Board of Directors considered the qualifications of Mr. Mele and unanimously approved his appointment to the Board of Directors to the class of directors with terms expiring at the 2011 Annual Meeting of Shareholders, the meeting at which Dr. Papadakis’ term would have expired.

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 2010 Annual Meeting would be willing to serve on the Board of Directors if re-elected. 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 of Directors 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 2010 Annual Meeting.

Therefore, three directors, Mr. Smoot, Mr. Hankowsky and Mr. Sordoni, will stand for election by a plurality of the votes cast at the 2010 Annual Meeting, and six directors will continue to serve until either the 2011 or 2012 Annual Meetings, depending on the period remaining in each of their terms. At the 2010 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 or the record holder does not have discretionary voting power under the NYSE rules (see "Voting At The Meeting – Broker Non-Votes" on page 2). 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.

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

INFORMATION REGARDING NOMINEES AND DIRECTORS

For each of the three nominees for election as directors at the 2010 Annual Meeting and the six directors in the classes of directors whose terms of office are to expire either at the 2011 Annual Meeting or the 2012 Annual Meeting, set forth below is information as to the positions and offices with the Company held by each, the principal occupation of each during the past five years, the directorships of public companies and other organizations held by each and the experience, qualifications, attributes or skills that, in the opinions of the Corporate Governance Committee and the Board of Directors make the individual qualified to serve as a director of the Company.

NOMINEES FOR ELECTION AT 2010 ANNUAL MEETING

Richard L. Smoot
Radnor, PA
Director since 1997

Biography: In 2002, Mr. Smoot retired as Regional Chairman Advisory Board Philadelphia and Southern New Jersey, The PNC Financial Services Group, a position he held since 2001. From 1991 through 2000, Mr. Smoot served as President and Chief Executive Officer of PNC Bank in Philadelphia and Southern New Jersey, and its predecessor, Provident National Bank. He also served as Executive Vice President responsible for Operations and Data Processing for the Bank from 1987 to 1991. Before joining PNC Bank in 1987, Mr. Smoot served 10 years as First Vice President and Chief Operating Officer of the Federal Reserve Bank of Philadelphia. Mr. Smoot retired as Chairman of The Philadelphia Orchestra in December 2005 and as Chairman of The Settlement Music School in July 2005. Mr. Smoot is also a director of P.H. Glatfelter Company, Southco Inc. and J.J. White, Incorporated. Age: 69.

NOMINEES FOR ELECTION AT 2010 ANNUAL MEETING

Qualifications: Mr. Smoot has over 23 years of banking and financial experience, including nine years as the President and Chief Executive Officer of a major regional bank. He has served as Chairman of the Company's Audit Committee since 1999. He has 15 years of service as a director of another publicly-traded company and serves on that company's nominating and corporate governance committee. Mr. Smoot has also held leadership positions with various major cultural institutions in the Philadelphia area. The Board of Directors has determined that Mr. Smoot is an independent director, financially literate and an audit committee financial expert within the meaning of applicable U.S. Securities and Exchange Commission ("SEC") rules. The Board of Directors views Mr. Smoot's independence, his banking and financial experience, his experience as a director of other publicly-traded companies and his demonstrated leadership roles in business and community activities as important qualifications, skills and experience supporting the Board of Directors' conclusion that Mr. Smoot should serve as a director of the Company.

William P. Hankowsky
Philadelphia, PA
Director since 2004

Biography: 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 Directors of Citizens Financial Group, the Board of Governors of NASDAQ OMX PHLX and on various charitable and civic boards, including the Philadelphia Convention and Visitors Bureau and the Kimmel Regional Performing Arts Center. Age: 58.

Qualifications: Mr. Hankowsky has over 35 years experience managing public, private and non-profit organizations, including six years as Chairman and Chief Executive Officer of Liberty Property Trust, a publicly-traded Real Estate Investment Trust which owns 77 million square feet of office and industrial space in over 20 markets throughout the United States and the United Kingdom. He has experience in financing, acquisitions and real estate matters across the United States. Mr. Hankowsky has also held leadership positions with various cultural and civic institutions in the Philadelphia area. Mr. Hankowsky has served as Chairman of the Company's Executive Compensation Committee since 2005. The Board of Directors has determined that Mr. Hankowsky is an independent director, financially literate and an audit committee financial expert within the meaning of applicable SEC rules. The Board of Directors views Hankowsky's independence, his experience with real estate, financing and acquisitions and his demonstrated leadership roles in business and community activities as important qualifications, skills and experience supporting the Board of Directors' conclusion that Mr. Hankowsky should serve as a director of the Company.

NOMINEES FOR ELECTION AT 2010 ANNUAL MEETING

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

Biography: Mr. Sordoni is Chairman of Sordoni Construction Services, Inc., a building construction and management services company and has been an officer of that company since 1967. Mr. Sordoni was Chairman or President of C-TEC Corporation, a diversified telecommunications company from 1979 to 1993. Since 1974 he has headed Sordoni Foundation, Inc. and has served as a director of various business and charitable organizations. He is also a director of Harsco Corporation. Age: 66.

Qualifications: Mr. Sordoni has experience as a director and executive of various public and private companies throughout the course of his career, including experience in construction, finance, administration and acquisitions. He was Chairman and President of a regulated public utility company in Pennsylvania. He has been a director of another publicly-traded company since 1988 and is chairman of that company's nominating committee and a member of its compensation committee and executive committee. Mr. Sordoni has lived and worked in northeast Pennsylvania, an important area of the Company's operations, for over 50 years. Mr. Sordoni has served as a member of the Company's Audit Committee since 2006. The Board of Directors has determined that Mr. Sordoni is an independent director, financially literate and an audit committee financial expert within the meaning of applicable SEC rules. The Board of Directors views Mr. Sordoni's independence, his experience as an executive of a public utility company in Pennsylvania, his experience in construction, finance and acquisitions, his knowledge of northeast Pennsylvania, his experience as a director of another publicly-traded company and his demonstrated leadership roles in business and community activities as important qualifications, skills and experience supporting the Board of Directors' conclusion that Mr. Sordoni should serve as a director of the Company.

DIRECTORS CONTINUING IN OFFICE WITH TERMS EXPIRING IN 2011

Mary C. Carroll
Bryn Mawr, PA
Director since 1981

Biography: Ms. Carroll is a consultant and an advisor to nonprofit corporations, businesses and government agencies and is a well-recognized civic volunteer. She is the Honorary Trade Representative of Nepal and Chairman of the Nepal Foundation. She is a founder, director or trustee of various civic and charitable organizations, including the YMCA of Philadelphia and Vicinity and the Friends of Patan Hospital. Age: 69.

Qualifications: As the Company's longest serving director, Ms. Carroll has knowledge of the Company's history and culture. She has been a community leader for 35 years, having served as an officer or member of the board of directors of over 30 local, regional and national non-profit organizations. She has established advisory boards which consulted and worked with the federal government. She has served as founder, President and CEO of organizations involved in economic development, conservation and self-help in Philadelphia and in Nepal, Russia and South Korea. Ms. Carroll has both a unique community-oriented and world perspective. Ms. Carroll has been a member of the Company's Corporate Governance Committee since 1981. The Board of Directors has determined that Ms. Carroll is an independent director. The Board of Directors views Ms. Carroll's independence, her knowledge of the company's history and culture and her demonstrated leadership roles in community activities as important qualifications, skills and experience for the Board of Directors' conclusion that Ms. Carroll should serve as a director of the Company.

Mario Mele
Ft. Washington, PA
Director since 2009

Biography: Mr. Mele is President of Fidelio Insurance Company, a health insurance company specializing in underwriting group dental insurance and President of Dental Delivery Systems, Inc., a dental HMO with over 50,000 enrollees in PA, NJ and NY. Mr. Mele served as Chairman of the Montgomery County, Pennsylvania Board of Commissioners from 1992 to 2000. He has also been a member of the Board of Directors of the Southeastern Pennsylvania Transportation Authority from 1997 to 2001 and a member of the Board of the Pennsylvania Liquor Control Board from 1980 to 1987. Age: 68.

Qualifications: Mr. Mele has 34 years of experience as the president of a health insurance company and over 20 years of experience in various state and local governmental organizations. He has held leadership roles in various cultural and civic organizations. He also has B.A and M.A. degrees in physics. The Board of Directors has determined that Mr. Mele is an independent director. The Board of Directors views Mr. Mele's independence, his experience with health insurance issues and state and local government, his science education and his demonstrated leadership roles in business and community activities as important qualifications, skills and experience for the Board of Directors' conclusion that Mr. Mele should serve as a director of the Company.

DIRECTORS CONTINUING IN OFFICE WITH TERMS EXPIRING IN 2011

Ellen T. Ruff
Charlotte, NC
Director since 2006

Biography: Ms. Ruff is President, Office of Nuclear Development, for Duke Energy Corporation, a leading energy company focused on electric power and gas distribution operations, and other energy services in the Americas. From April 2006 through December 2008, Ms. Ruff was President of Duke Energy Carolinas, one of the nation's largest electric utilities that provide 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: 61.

Qualifications: Ms. Ruff has over 30 years of experience with a major utility company in various management, operations, legal, planning and public affairs positions. Ms. Ruff has lived and worked in North Carolina, an important area of the Company's operations, for many years. Ms. Ruff has served as a member of the Company's Executive Compensation Committee since 2006. The Board of Directors has determined that Ms. Ruff is an independent director. The Board of Directors views Ms. Ruff's independence, her experience with various aspects of the utility industry, her knowledge of North Carolina and her demonstrated leadership roles in business and community activities as important qualifications, skills and experience for the Board of Directors' conclusion that Ms. Ruff should serve as a director of the Company.

DIRECTORS CONTINUING IN OFFICE WITH TERMS EXPIRING IN 2012

Nicholas DeBenedictis
Ardmore, PA
Director since 1992

Biography: 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, and P.H. Glatfelter Company and served as a director of Met-Pro Corporation until February 2010. He also serves on the Boards of Pennsylvania area nonprofit, civic and business organizations. Age: 64.

Qualifications: In addition to his knowledge and experience as the Company's Chief Executive Officer since 1992 and his prior experience as a senior executive of a major electric utility, Mr. DeBenedictis has experience as the head of Pennsylvania's environmental regulatory agency. He serves as a director of two other public companies, including as a member of the corporate governance, audit and compensation committee of those companies. Mr. DeBenedictis has also held leadership positions with various, educational, civic and charitable institutions. The Board of Directors views Mr. DeBenedictis' experience with various aspects of the utility industry and his demonstrated leadership roles in business and community activities as important qualifications, skills and experience for the Board of Directors' conclusion that Mr. DeBenedictis should serve as a director of the Company.

Richard H. Glanton
Philadelphia, PA
Director since 1995

Biography: Mr. Glanton is Chairman of the Philadelphia Television Network, a privately-held media company. Mr. Glanton was Senior Vice President of Corporate Development at Exelon Corporation from 2003 to 2008. From 1983 to 2003 he was a partner at the law firms of Wolf Block LLP (1983 to 1986) and Reed Smith LLP (1986 to 2003). Mr. Glanton is a director of The GEO Group, Inc. and Mistras Group, Inc. Age: 63.

DIRECTORS CONTINUING IN OFFICE WITH TERMS EXPIRING IN 2012

Qualifications: Mr. Glanton has more than 25 years of legal experience in law firms and 13 years of executive experience as President of The Barnes Foundation for more than eight years from 1990 to 1998 and at Exelon. Mr. Glanton has approximately 28 years of continuous experience serving on boards of publicly traded companies. He has served as a director on boards of five publicly-traded companies, four of which are traded on the NYSE and one, CGU, on the United Kingdom Stock Exchange. He served as a Director of CGU of North America, a British based Insurance Company, from 1983 to 2003 when it was sold to White Mountain Group of Exeter New Hampshire and Berkshire Hathaway. He was a member of both, its Executive and Audit Committees during his 20 year tenure on that board. From 1990 until 2003, he served as Director of PECO Energy and Exelon Corporation Boards until he resigned to assume a senior management position within the Company at the request of its Chairman. He served on Executive, Audit and Governance Committees of PECO/Exelon. He has been a director of the GEO Group since 1998, where he serves on its three Member Executive Committee, Chairman of the Audit and Finance Committee and a Member of its Governance and Compensation Committees. He has served as Chairman of Aqua's Governance Committee since 2005. The Board has determined that Mr. Glanton is an Independent Director. The Board of Directors views Mr. Glanton's independence, his experience in utility acquisitions, his experience as a director of other publicly-traded Companies and his demonstrated leadership roles in other business activities as important qualifications, skills and experience for the Board of Directors' conclusion that Mr. Glanton should serve as a director of the company.

Lon R. Greenberg
Wyndmoor, PA
Director since 2005

Biography: Mr. Greenberg has been Chairman of the Board of Directors of UGI Corporation since August 1996 and Chief Executive Officer since August 1995. He was formerly President (July 1994 to August 2005), Vice Chairman of the Board (1995 to 1996) and Senior Vice President – Legal and Corporate Development (1989 to 1994) of UGI Corporation. Mr. Greenberg is a member of the Board of Trustees of Temple University and the Temple University Health System. Mr. Greenberg also serves as a director of UGI Utilities, Inc. and AmeriGas Propane, Inc. Age: 59.

Qualifications: Mr. Greenberg has over 20 years of experience in various executive, legal and corporate development roles with a major gas utility company and international distributor or propane. He is also Chairman of the nation's largest retail propane marketer. He is a member of the Board of Trustees of a major university in Philadelphia and the university's health system. Mr. Greenberg has served as a member of the Company's Executive Compensation Committee since 2005 and a member of the Company's Audit Committee since 2009. Mr. Greenberg has also held leadership positions with various civic and charitable institutions. The Board of Directors has determined that Mr. Greenberg is an independent director, financially literate and an audit committee financial expert within the meaning of applicable SEC rules. The Board of Directors views Mr. Greenberg's independence, his experience with various aspects of the utility industry, his experience as an executive of a non-utility business and his demonstrated leadership roles in business and community activities as important qualifications, skills and experience for the Board of Directors' conclusion that Mr. Greenberg should serve as a director of the Company.

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.

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 such 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 personally works on the Company's audit, 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 \$120,000 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 is an executive officer or employee, or someone in her/his immediate family is 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 serves 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 of Directors 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 made contributions to charitable or civic organizations for which the following directors serve as directors, trustees or executive officers: Ms. Carroll, Mr. Glanton, Mr. Greenberg, Mr. Hankowsky, Mr. Mele and Mr. Sordoni. None of the Company's contributions exceeded the greater of \$1,000,000 or 2% of the recipient organization's annual revenues.

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2. The Company purchases energy at normal tariff rates from Exelon Corporation, Duke Energy Corporation and UGI Corporation or their affiliates for which Mr. Glanton, Ms. Ruff and Mr. Greenberg, respectively, serve or served as executive officers. The amounts paid by the Company to these other entities are not material to these other entities.
3. The Company provides water service at normal tariff rates to Liberty Property Trust, UGI Corporation, Exelon Corporation and Duke Energy Corporation or their affiliates for which Mr. Hankowsky, Mr. Greenberg, Mr. Glanton and Ms. Ruff, respectively, serve or served as executive officers. The amounts paid to the Company by these other entities are not material to these other entities.
4. Mr. DeBenedictis is a member of the board of directors, but not the compensation committee, of Exelon Corporation, for which Mr. Glanton served as an executive officer until 2008.
5. Mr. DeBenedictis serves on the board of directors of other companies and of civic or charitable organizations with Mr. Greenberg, Mr. Hankowsky, Mr. Smoot and Mr. Sordoni.
6. The Company has paid Liberty Property Trust amounts under the Company's normal developer refund agreement and Mr. Hankowsky serves as an executive officer of Liberty Property Trust. The Company has banking arrangements with Citizens Financial Group or its affiliates and Mr. Hankowsky is a member of the Board of Directors of Citizens Financial Group. The amounts paid by the Company to these other entities are not material to these other entities.

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

In 2005, the Board of Directors approved share ownership guidelines that require each director to own shares of Company common stock having a value equal to five times the annual cash retainer for directors. Directors have up to five years to attain this guideline share ownership level. As of March 15, 2010, seven directors met these guidelines. One director who joined the Board of Directors in 2006 has not yet met the guidelines.

BOARD OF DIRECTORS LEADERSHIP STRUCTURE

The Board of Director's current policy is that the positions of Chairman and Chief Executive Officer be held by the same person. The Board of Directors believes that this leadership structure has served the Company well over the years by providing unified leadership and direction and, in combination with the Company's other corporate governance policies and procedures, is in the best interests of the Company's shareholders. The Board of Directors may separate these positions in the future should circumstances change, such as in connection with a transition in leadership.

The Board of Directors annually elects a lead independent director to coordinate the activities of the other independent directors and enhance the role of the independent directors in the overall corporate governance of the Company. Unless otherwise determined by the Board, the director elected annually to serve as the Chair of the Corporate Governance Committee will also serve as the lead independent director. The duties and powers of the lead independent director include:

- presiding at all meetings of the Board at which the Chairman of the Board is not present, including executive sessions of the independent directors;
- serving as liaison between the independent directors and the Chairman of the Board;
- consulting with the Chairman of the Board on meeting agendas and information provided to the Board for meetings, including the authority to add items to the agendas for any such meeting;

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- reviewing and approving meeting schedules to assure that there is sufficient time for discussion of all agenda items;
- having the authority to call executive sessions of the independent directors and to prepare the agendas for such executive sessions;

- serving as the Board's liaison for consultation and communications with shareholders on behalf of the independent directors;
- serving as a member of the Executive Committee;
- in the event of the death or incapacity of the Chairman and Chief Executive Officer, becoming the acting Chairman of the Board until a new Chairman is selected; and
- having the authority (on behalf of the independent directors) to engage such legal, financial or other advisors as the independent directors shall deem appropriate at the expense of the Company and without consultation or the need to obtain approval of any officer of the Company.

OVERSIGHT OF RISK MANAGEMENT

The Board oversees management's risk management activities through a combination of processes. Management has developed a Company-wide Enterprise Risk Management process intended to identify, prioritize and monitor key risks that may affect the Company. At least annually, the Board reviews this Enterprise Risk Management process and management presents a report on the status of the risks and metrics used to monitor those risks to the Board. The Audit Committee, in consultation with the management, the independent registered public accountants, and the internal auditors, discusses the Company's policies and guidelines regarding risk assessment and risk management as well as the Company's significant financial risk exposures and the steps management has taken to monitor, control and report such exposures. The Executive Compensation Committee considers the risks that may be presented by the structure of the Company's compensation programs and the metrics used to determine individual compensation under that program. In addition, two members of the Audit Committee are also members of the Executive Compensation Committee, which allows for the sharing of information concerning the risk assessment and risk management reviewed by the Audit Committee with the Executive Compensation Committee in its consideration of the Company's compensation policies and practices. The Corporate Governance Committee leads an annual discussion by the Board of Directors regarding the Company's strategic plans and management's performance with respect to such plans. The Board believes that the present leadership structure of having the same person serve as the Chairman and Chief Executive Officer of the Company, along with the important risk oversight functions performed by the Audit Committee, the Executive Compensation Committee and the full Board, permits the Board to effectively perform its role in the risk oversight of the Company.

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 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. 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

The Board has 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 shareholders.

BOARD AND BOARD COMMITTEES

The Board of Directors held five meetings in 2009. The Company’s Bylaws provide that the Board of Directors, by resolution adopted by a majority of the whole Board, may designate an Executive Committee and one or more other committees, with each such committee to consist of two or more directors. The Board of Directors annually elects from its members the Executive, Audit, Executive Compensation and Corporate Governance Committees. The Board may also from time to time appoint an ad hoc Finance Committee to approve the terms of the Company’s financings. The Pension Committee, which is comprised of senior management of the Company, reports periodically to the Board of Directors. Ms. Carroll serves as an advisor to the Pension Committee. Each director attended at least 75% of the aggregate of all meetings of the Board and the Committees on which each such director served in 2009. The Board of Directors encourages all directors to attend the Company’s Annual Meeting of Shareholders. All the directors were in attendance at the 2009 Annual Meeting of Shareholders.

Each of the standing Committees of the Board of Directors operates pursuant to a written Committee Charter. Copies of these Charters can be obtained free of charge from the Corporate Governance portion of the Investor Relations section of the Company’s Web site, www.aquaamerica.com.

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

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

Corporate Governance Committee
 Richard H. Glanton*
 Mary C. Carroll
 Mario Mele

* 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 certain specified exceptions. The Executive Committee is intended to serve in the event that action by the Board of Directors is necessary or desirable between regular meetings of the Board, or at a time when convening a meeting of the entire Board is not practical, and to make recommendations to the entire Board with respect to various matters. The Executive Committee did not meet in 2009. The Executive Committee currently has four members, and the Chairman of the Board of Directors serves as Chairman of the Executive Committee.

Audit Committee

The Audit Committee is composed of four directors, whom the Board of Directors has affirmatively determined meet the standards of independence required of audit committee members by the NYSE listing requirements 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 2009. The Audit Committee operates pursuant to a Board-approved charter which states its duties and responsibilities. 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.

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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 44.

Executive Compensation Committee

The Executive Compensation Committee is composed of three directors, whom the Board of Directors has affirmatively determined are independent directors as defined by the NYSE listing requirements. The Executive Compensation Committee operates pursuant to a Board-approved charter which states its duties and responsibilities. The Executive Compensation Committee has the power to, among other things, administer and make awards under the Company's equity compensation plans. In addition, the Executive Compensation Committee reviews the recommendations of the Company's Chief Executive Officer as to appropriate compensation of the Company's executive officers (other than the Chief Executive Officer) and determines the compensation of such executive officers and the Company's Chief Executive Officer for the ensuing year. The Executive Compensation Committee held three meetings in 2009.

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 listing requirements. The Corporate Governance Committee operates pursuant to a Board-approved charter which states its duties and responsibilities, which include 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 Chairman 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 2009.

OWNERSHIP OF COMMON STOCK

The following table sets forth certain information as of March 15, 2010 with respect to shares of Common Stock of the Company beneficially owned by: (1) each person known to the Company to be the beneficial owner of more than 5% of the Common Stock of the Company; (2) each director, nominee for director and executive officer named in the Summary Compensation Table; and (3) all directors, nominees and executive officers of the Company as a group. This information has been provided by each of the directors, executive officers and nominees at the request of the Company or derived from statements filed with the SEC pursuant to Section 13(d) or 13(g) of the Exchange Act. Beneficial ownership of securities as shown below has been determined in accordance with applicable guidelines issued by the SEC. Beneficial ownership includes the possession, directly or indirectly, through any formal or informal arrangement, either individually or in a group, of voting power (which includes the power to vote, or to direct the voting of, such security) and/or investment power (which includes the power to dispose of, or to direct the disposition of, such security).

Name and Address of Beneficial Owner	Sole voting and sole investment power(1)	Shared voting and shared investment power	Amount and Nature of Beneficial Ownership	Percent of Class(2)
1) Certain beneficial owners:				
BlackRock, Inc. (3) 40 East 52nd Street New York, NY 10022	7,156,792	—	7,156,792	5.23%
2) Directors (including nominees) and executive officers:				
Mary C. Carroll	16,279	3,556 (4)	19,835	*
Nicholas DeBenedictis	770,947	272,276 (5)	1,043,223	*
Christopher H. Franklin	114,135	—	114,135	*

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Name and Address of Beneficial Owner	Sole voting and sole investment power(1)	Shared voting and shared investment power	Amount and Nature of Beneficial Ownership	Percent of Class(2)
Richard H. Glanton	8,323	—	8,323	*
Lon R. Greenberg	6,000	6,200 (6)	12,200	*
William P. Hankowsky	8,860	—	8,860	*
Karl M. Kyriss	96,190	913 (7)	97,102	*
Mario Mele	4,000	14,082 (8)	18,082	*
Ellen T. Ruff	5,000	—	5,000	*
David P. Smeltzer	180,127	23,916 (9)	204,043	*
Richard L. Smoot	17,462	—	17,462	*
Andrew J. Sordoni	48,686	12,536 (10)	61,222	*
Roy H. Stahl	249,340	20,000 (11)	269,340	*

3) All directors, nominees and executive officers as a group (15 persons)	1,708,360 (12)	377,517 (13)	2,085,876	1.52%
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* Less than 1%

(1) Includes shares held under the Company's 401(k) Plan. Also includes the following number of shares issuable upon exercise of outstanding stock options exercisable on or before May 31, 2010: 337,650 shares issuable to Mr. DeBenedictis; 175,175 shares issuable to Mr. Stahl; 138,782 shares issuable to Mr. Smeltzer; 74,496 shares issuable to Mr. Kyriss; and 90,683 shares issuable to Mr. Franklin.

(2) Percentage of ownership for each person or group is based on 136,940,424 shares of Common Stock outstanding as of March 15, 2010 and all shares issuable to such person or group upon exercise of outstanding stock options exercisable within 60 days of that date.

(3) The information for BlackRock, Inc. was obtained from the Schedule 13G filed by BlackRock, Inc. with the SEC on January 29, 2010.

(4) The shareholdings indicated are owned of record by Mrs. Carroll's husband.

(5) The shareholdings indicated include 133,023 shares owned by Mr. DeBenedictis' wife, including 120,000 shares in a Trust for which his wife is trustee.

(6) The shareholdings indicated are owned jointly with Mr. Greenberg's wife.

(7) The shareholdings indicated are owned jointly with Mr. Kyriss' wife.

(8) The shareholdings indicated include 3,666 shares owned by the Fidelio Foundation for which Mr. Mele is trustee, 6,416 shares owned by Dental Delivery Systems, Inc. of which Mr. Mele is President and 4,000 shares owned by Mele Brothers Realty of which Mr. Mele is partner.

(9) The shareholdings indicated are owned jointly with Mr. Smeltzer's wife.

(10) 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.

(11) The shareholdings indicated are owned jointly with Mr. Stahl's wife.

(12) The shareholdings indicated include 965,539 shares issuable to such group upon exercise of outstanding stock options exercisable on or before May 31, 2010.

- (13) The shareholdings indicated include 377,517 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.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

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

Objectives of Aqua America’s Compensation Program

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

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

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

In administering the executive compensation program, the Executive Compensation Committee (the “Compensation Committee”) attempts to strike an appropriate balance among the elements of our compensation program to achieve the objectives described above. Each of the elements of the program is discussed in greater detail below. In reviewing the Company’s overall compensation program in the context of the risks identified in the Company’s enterprise risk management processes, the Committee does not believe that the risks the Company faces are correlated with the Company’s compensation programs and, therefore, the Committee does not believe that the program creates a reasonable likelihood of a material adverse affect on the Company.

Elements of Aqua America’s Compensation Program

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

- Base Salary
- Annual Cash Incentive Awards (referred to as Non-Equity Incentive Plan Compensation in the Summary Compensation Table on page 27)
- Equity Incentives and stock ownership guidelines
- Retirement Benefits
- Non-Qualified Deferred Compensation Plans
- Change-in-Control Agreements

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

- competitively benchmarked base salaries are designed to attract and retain executives consistent with their talent and experience, market-based salary increases are designed to recognize the executive’s performance of their duties and responsibilities and promotions

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and related salary increases are designed to encourage executives to assume increased job duties and responsibilities;

- annual cash incentive awards are intended to reward executives and other employees for improving the quality of service to our customers, controlling the cost of service to our customers by managing expenses 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;

- equity incentives and stock ownership guidelines are designed to align the interests of our executives with our shareholders, to encourage executives to maintain a significant ownership interest in the Company, to reward executives and other employees for enhancing our financial health and performance and achieving increases in shareholder value and to help retain executives due to the longer term nature of these incentives;
- retirement benefits are intended to assist executives and other employees to provide income for their retirement;
- our non-qualified deferred compensation plan is designed to allow eligible executives to defer current income until a later date, either following retirement or other separation from employment; and
- change-in-control agreements with selected executive officers are designed to promote stability and dedication to shareholder value in the event of a fundamental transaction affecting the ownership of Aqua America and to enable the executives to impartially evaluate such a transaction.

As used in this Compensation Discussion and Analysis, the total of base salary and annual cash incentive compensation is referred to as “total cash compensation” and the total of base salary, annual cash incentive compensation and equity incentive compensation is referred to as “total direct compensation”.

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

The Compensation Committee has retained Towers Watson, a nationally-recognized compensation consulting firm, as the Committee’s consultant to assist the Committee in designing and assessing the competitiveness of our executive compensation program. Annually, the Compensation Committee has the consultant develop a market rate or benchmark for base salary, total cash compensation and total direct compensation for each of the named executive officer positions, including the allocation between cash compensation and equity incentives. Each market rate represents the compensation level which would be paid to a hypothetical, seasoned performer in a position having similar responsibilities and in an organization of similar size and type as the Company. In light of the broad scope of responsibilities for the Chief Executive Officer, he is in a higher salary grade than the other named executive officers and is paid commensurately more.

In developing the market rates for the executive officers, the consultant uses survey data from utility companies in the consultant’s utility industry database, an independent water utility compensation survey, and the consultant’s general industry database, which together is referred to as the “Composite Market”. The Composite Market is composed of approximately 60 companies from the consultant’s utility industry database, 8 water utility companies from the independent water utility database and approximately 750 companies that participate in the consultant’s general industry database. The Company has no involvement in the selection of the companies that are included in these databases. Information on compensation for positions in these databases with similar scopes of responsibilities is compared primarily based on the revenues of the organizations in the databases. For instance, a chief executive officer in a company with higher revenues is usually paid more than a chief executive officer in a company with lower revenues. Due to the relatively limited number of investor-owned water utility companies, the Compensation Committee believes that using this broad survey data provides reasonable and reliable data for determining competitive compensation levels. Towers Watson uses regression analysis to size-adjust the survey data for each named executive officer’s scope of responsibilities, where possible.

In measuring the competitiveness of the Company’s executive compensation program, the Compensation Committee compares:

- the executive officer’s total cash compensation to the market rate for the executive’s position at the 50th percentile of compensation levels for size-adjusted utility companies in the Composite Market; and
- the executive officers equity incentives to the market rate for the executive’s position at the 50th percentile of a 50/50 blend of size-adjusted utility companies and general businesses in the Composite Market. We believe that a blended approach is appropriate for equity incentives in order to place a strong focus on creating value for Aqua America’s shareholders and to enable us to compete for talent both within and outside of the traditional utility industry.

The Committee considers target total direct compensation levels that are within a range of 15% of the market rates developed by the consultant for each position to be competitive. Variances within this range can be a result of performance, experience and other factors. At the beginning of 2010, the average of the total cash compensation for the Company's five named executive officers was 7% below the competitive benchmark, and the average of the total direct compensation for the Company's five named executive officers was 3% below the competitive benchmark. 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 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 because annual incentives are intended to reward annual performance and the Committee makes grants of equity incentives based on their grant date value and the applicable competitive benchmarks for each executive's position.

The Committee's compensation consultant, Towers Watson, also provides actuarial and related consulting services to the Company in connection with the Company's retirement plans. Towers Watson was selected by the Committee as its consultant for executive compensation matters independent of any consideration of the services that Towers Watson provides for the Company's retirement plans. None of the Towers Watson consultants that provide the actuarial and benefit consulting services are involved in any of the executive compensation consulting services provided to the Committee and none of the Towers Watson executive compensation consultants are involved in any of the actuarial and benefit consulting services provided to the Company. Towers Watson has served as the actuary for the Company's retirement plans for many years and its knowledge and experience with the Company's plans and with the utility industry are considered valuable by the Company. In 2009, the fees paid to Towers Watson for services in connection with the Company's retirement plans were \$685,000 and the fees paid to Towers Watson for services in connection with executive and director compensation were \$68,000. The Committee views Towers Watson as an independent consultant to the Committee.

Determination of Actual Compensation

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

Base Salary

A competitive base salary is necessary to attract and retain a talented and experienced workforce. Actual salaries for the named executive officers are determined by the Committee by considering both the market rate for the position and internal equity with both the other named executive officers and other employees in the Company. The Committee's goal is to maintain base salaries around a range of +/- 15% of the market rate over time for each of the named executive officers, although deviations from this goal may occur due to promotions, the executive's performance and the time the executive has been in a particular salary grade. Base salaries are considered for adjustment annually and adjustments are based on general movement in external salary levels, changes in the market rate for the named executive officers' positions, individual performance, internal equity and changes in individual duties and responsibilities. For 2009, the salary increases for the named executive officers averaged 3.7%.

Annual Cash Incentive Awards

Annual cash incentives under the Annual Cash Incentive Compensation Plan are intended to motivate management to focus on the achievement of annual objectives that will, among other things, improve the level of service to our customers, control the cost of service and enhance our financial performance. The annual cash incentive portion of the compensation package is based on a target incentive award for each executive, which is stated as a percentage of their base salary. The Compensation Committee selects a target annual incentive percentage for

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each executive so that the executive's target total cash compensation, consisting of base salary and target annual cash incentive, when combined with the executive's target equity incentives, is generally around a range of +/- 15% of the total direct compensation for the market rate for that position.

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 the performance of the Company, or the appropriate business unit of the Company, against an annual financial target.

The Company Factor ranges from 35%, if 75% of the annual financial performance target is achieved, to 125%, if 110% or more of the annual financial target is achieved. Under the Annual Cash Incentive Compensation Plan, the Company Factor will be 0% if the company or business unit does not achieve at least 75% of the annual financial performance target, 60% if the company or business unit achieves 90% of its financial target and 100% if the company or business unit achieves 100% of its financial target. We feel that this approach strikes a reasonable balance between pay for performance and encouraging our management team to make appropriate decisions for the longer-term interest of the Company. For the period of 2007 through 2009, the Company Factors for the executives have ranged from 66% to 96%.

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

The 2009 Company Factor for the named executive officers was determined based on the following financial measures:

	Aqua America Net Income	Mid-Atlantic Division EBITD	Aqua Pennsylvania EBITD	Southern Division EBITD
Nicholas DeBenedictis	100%	—	—	—
David P. Smeltzer	100%	—	—	—
Roy H. Stahl	100%	—	—	—
Karl M. Kyriss	20%	80%	—	—
Christopher H. Franklin	30%	—	40%	30%

For purposes of determining the Company Factor for 2009, the range of Aqua America's net income and business unit EBITD was as follows:

	2009
Aqua America Net income	\$82,983,750 to \$121,709,500
Mid-Atlantic EBITD	\$189,250,500 to \$277,567,400
Aqua Pennsylvania EBITD	\$182,922,750 to \$268,286,700
Southern EBITD	\$34,106,250 to \$50,022,500

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, along with discretionary points based on the individual's performance. Each named executive officer has approximately ten individual objectives each year. The Committee approves the objectives for the Chief Executive Officer, and the Chief Executive Officer approves the objectives and point weighting for each objective for the other executive officers. The other executives must achieve objectives with a point rating of at least 70 points to be eligible to receive an annual cash incentive award. Up to 40 discretionary points can be awarded for exceptional performance or for achievements on matters not covered by the executive's original objectives, for a maximum total Individual Factor of 150%. For the Chief Executive Officer, the Individual Factor is based on the Committee's overall assessment of his achievements on his objectives up to a total of 150 points for all the objectives combined. Thus, 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 individual annual objectives established for the executive officers, including the named executive officers, will vary depending on their primary areas of responsibility, but the majority of the objectives can be categorized into common areas of emphasis. These common areas of emphasis are customer growth and strategy, improving customer service, cost control, performance improvement, compliance and revenue improvement. The Company considers the executive officers' annual objectives achievable, but challenging. For the period of 2007 through 2009, the Individual Factors achieved by the executives based on their performance against their objectives and discretionary points have ranged from 70% to 145%. The individual objectives for the named executive officers in 2009 focused on the following areas:

Nicholas DeBenedictis

- Strategic planning
- Succession planning
- Customer and revenue growth
- Operational efficiency
- Managing controllable costs
- Customer service
- Information systems implementation

David P. Smeltzer

- Rate case management
- Debt financing
- Operating cost control
- Sarbanes-Oxley Act compliance
- Information systems implementation

Roy H. Stahl

- Outside legal expense control
- Pension investment management
- Business continuity planning
- Litigation and claims management
- Operating cost control

Karl M. Kyriess

- Operating cost control
- Capital project and budget management

- Organizational change management
- Customer and revenue growth
- Labor relations management

Christopher H. Franklin

- Rate case management
- Water quality
- Operational efficiencies
- Organizational change management
- Operating cost control

Actual cash incentive awards under the Annual Cash Incentive Compensation Plan for the named executive officers are established by the Committee based on the applicable Company Factor, certified by the Company's Chief Financial Officer, and each executive officer's Individual Factor. For the Chief Executive Officer, the Committee determines his Individual Factor based on the Committee's assessment of the Chief Executive Officer's performance against his objectives. For the other named executive officers, the Committee reviews and approves the Individual Factors based on the Chief Executive Officer's assessment of the named executive officers' performance against their objectives and possible discretionary points recommended by the Chief Executive Officer. Regardless of Aqua America's financial performance, the Compensation Committee retains the authority to determine the final Company Factor, and the actual payment and amount of any annual cash incentive award is always subject to the discretion of the Compensation Committee. The Compensation Committee has not exercised this discretion to grant an annual cash incentive to a named executive officer outside of the provisions of the Plan or to deny a cash incentive award to a named executive officer that was otherwise earned under the Plan.

Equity Incentives

Our use of equity incentives is intended to (1) align executive compensation with the enhancement of our financial stability and performance, and with shareholder interests by providing the participants with a long-term equity interest in Aqua America and (2) attract and retain talented employees. Under the terms of our 2009 Omnibus Equity Compensation Plan, the Compensation Committee and the Board of Directors may grant stock options, dividend equivalents, stock units, stock awards, stock appreciation rights and other stock-based awards to officers, directors, key employees and key consultants of Aqua America and its subsidiaries who are in a position to contribute materially to the successful operation of our business.

As part of its review of the total compensation package for our executives, the Compensation Committee annually reviews our equity incentive compensation program. The Compensation Committee has used a combination of stock options, dividend equivalents and restricted stock, and may use other forms of equity awards under the 2009 Omnibus Equity Compensation Plan in the future, to link executive long-term incentives to the enhancement of our long-term financial stability and performance and shareholder interests.

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

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. Dividend equivalents accrued for a grantee from the date of grant through March 1 of the following year will be paid to the grantee by March 15 of the year following the year of grant. Subsequent dividend equivalents accrued from March 2 of one year to March 1 of the following year through the end of the applicable accumulation period will be paid by March 15 of that following year. In all cases, payment of the dividend equivalents is conditioned on the grantee being a full-time employee of the Company or its subsidiaries on the March 1 preceding the payment date, unless the grantee's termination was a result of death, disability or retirement, as defined in the Company's equity compensation plan.

From time to time, the Committee will make restricted stock grants that vest at the end of a given period of time or in increments over a period of years on the anniversaries of the grant date. For the grants of restricted stock to the named executive officers, vesting is subject to achievement of certain performance criteria. For the restricted stock grants made to date, these performance criteria require an increase in our annual operating income over previous periods.

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

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

It is our long-standing practice to set the exercise price for stock options equal to the fair market value of Aqua America's stock on the date of grant, which is the closing price for our common stock on the date of grant.

Awards of stock options, dividend equivalents and restricted stock are generally all made on the same grant date. It is our policy to make the grant date of equity compensation grants (options, dividend equivalents and restricted stock) the date that the Compensation Committee approves the grants, which is either the date of the Committee's meeting or the date of the Board meeting following the Committee's meeting. The meeting dates for all Board and Compensation Committee meetings, including the dates for the Compensation Committee to approve the equity grants is set in advance, subject to changes for scheduling conflicts, and is independent of the timing of our disclosure of any material non-public information other than our normal annual earnings release.

The performance criteria, designated by the Committee that must be achieved in order for the installments of restricted stock grants that are subject to such criteria to vest, has been period-over-period increases in operating income for the Company. Adjustments may be made to actual operating income results to reflect the impact of unbudgeted extraordinary gains or losses, certain non-cash charges arising from changes in accounting or fair value and other factors as deemed appropriate by the Compensation Committee.

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. Starting in 2009, the Company began to fund the trust for the benefits under the non-qualified retirement plans using trust-owned life insurance. An executive's retirement benefits under our qualified and non-qualified retirement plans are not taken into account in determining the executive's current compensation.

Non-qualified Deferred Compensation Plans

We maintain a non-qualified Executive Deferred Compensation Plan that allows eligible members of management to defer all or a portion of their salary and annual cash incentives, which enables participants to save for retirement and other life events in a tax-effective manner. Through December 31, 2008, deferred amounts accrued interest at the rate of one percent over the prime rate of interest or could also be used to purchase universal life insurance. Starting January 1, 2009, deferred amounts, including previous deferrals, will be deemed invested in one or more mutual funds selected by the participant under trust-owned life insurance policies on the lives of eligible executives. In addition, in order to provide executives with the full company matching contribution available to other employees, executives who choose to defer up to six percent of their salary under one of Aqua America's 401(k) plans, but do not receive the full Aqua America matching contribution under the plans due to the Internal Revenue Service regulations limiting the total dollar amount that can be deferred under a 401(k) plan (\$15,500 for 2007 and 2008 and \$16,500 for 2009), 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. Effective January 1, 2009, the Company has also begun to fund the trust holding amounts deferred by the participants in the Executive Deferral Plan using trust-owned life insurance. An executive's deferrals, Aqua America's contributions and earnings on deferrals and contributions under our non-qualified deferred compensation plan are not taken into account in determining the executive's current compensation.

Change-in-Control Agreements

We maintain change-in-control agreements with certain executives, including the named executive officers. The change of control agreements entered into with executive officers are intended to minimize the distraction and uncertainty that could affect key management in the event we become involved in a transaction that could result in a change of control of Aqua America and to enable the executives to impartially evaluate such a transaction. 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 the executive resigns for good reason, 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 36 through 43.) These agreements are intended 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 resign, 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 resigns within 12 months after a change of control as a result of his determination that circumstances have changed with respect to Aqua America and he is no longer able to effectively perform his duties and responsibilities. Because of the unique role of a chief executive officer in a corporation, we believe that such a provision is appropriate. Each of the change-in-control agreements, except the agreement with the Chief Executive Officer, limit the amount of the payments under the agreements to the Internal Revenue Service's limitation on the deductibility of these payments under Section 280G of the Internal Revenue Code (the "Code"). The agreement with the Chief Executive Officer does not contain this limitation and requires Aqua America to reimburse him for certain tax impacts if the payments under his agreement exceeds the Section 280G limit by at least 10%. See "The Impact of Tax Considerations on Executive Compensation Decisions" on page 25. Payment under the Chief Executive Officer's agreement is, however, contingent on his agreement to a 12 month non-compete agreement. We believe that the multiples of compensation and other benefits provided under the change-in-control agreements, as described on pages 36 and 37 are consistent with practices in the market. Executives who receive payments under their change-in-control agreements in connection with their separation from employment following a change-in-control will not be entitled to any payments under our normal severance policy, nor will our Chief Executive Officer be entitled to receive the severance payment for terminations prior to a change-in-control under his Change in Control and Severance Agreement, as described on page 36. Our Chief Executive Officer will be entitled to the benefit under his Employment Agreement described on page 36 if his employment is terminated by the Company without Cause, by the Chief Executive Officer for Good Reason or by his death or Disability as defined in the Employment Agreement, whether that termination occurs after a change-in-control or not.

The Role of Management in the Executive Compensation Process

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

The Impact of Tax Considerations on Executive Compensation Decisions

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

As noted above, under the change-in-control agreement with our Chief Executive Officer, our payments to our Chief Executive Officer will not be subject to limitations under Section 280G of the Code if the amounts payable to him under his agreement exceeds the Section 280G limit by more than 10%, and therefore, a portion of the payments may not be deductible. If the amounts payable to our Chief Executive Officer exceed the Section 280G limit by more than 10%, he shall be paid an additional amount such that the net amount he retains after deduction of any excise tax imposed under Section 4999 of the Code, and any federal, state and local income and employment tax and excise tax imposed upon such additional amount shall be equal to the payment otherwise due under the agreement. We included these provisions in our Chief Executive Officer's change-in-control agreement because we did not want the potential excise tax to serve as a disincentive to our Chief Executive Officer's pursuit of a change-in-control transaction that might otherwise be in the best interests of our shareholders. We believe that, in light of our Chief Executive Officer's record of performance, this determination is appropriate.

Equity Ownership Requirements

In 2005, the Board of Directors established stock ownership guidelines for the named executive officers to encourage these executives to maintain a significant ownership interest in the Company and to help align the executive's interests with the long-term performance of the Company. 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 directly or beneficially, and shares under our Employee Stock Purchase Plan or 401(k) plans. Shareholdings do not include exercisable stock options or restricted shares still subject to restrictions. The named 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 becoming a named executive officer, if later. Each of the named executive officers, except Mr. Kyriss, who first became an executive officer in 2006, and Mr. Franklin, who first became a named executive officer in 2008, met these guidelines as of the end of 2009. It is the Company's policy not to permit hedging or short-selling of the Company's stock by its executive officers.

Recovery of Incentive Compensation

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

COMPENSATION COMMITTEE REPORT

The Executive Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis on pages 17 through 26 with management. Based on this review and discussion, the Committee recommended to the Company's Board of Directors, and the Board of Directors approved, the inclusion of the Compensation Discussion and Analysis in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and proxy statement for the 2010 Annual Meeting of Shareholders.

Respectfully submitted,

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

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 years ended December 31, 2007, 2008 and 2009.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)	Grant Date Fair Value of Stock and Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)(1)(3)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)(4)	All Other Compensation (\$)(5)	Total Compensation (\$)
Nicholas DeBenedictis Chief Executive Officer (Principal Executive Officer)	2009	507,527	—	661,650	382,476	752,583	244,748	2,548,985
	2008	486,808	—	670,560	452,182	520,595	206,499	2,336,644
	2007	453,847	—	654,225	355,446	453,520	82,980	2,000,018
David P. Smeltzer Chief Financial Officer (Principal Financial Officer)	2009	270,846	—	180,450	104,280	177,035	62,224	794,835
	2008	255,085	—	162,700	104,832	131,287	52,374	706,278
	2007	236,249	—	199,675	83,054	64,636	25,156	608,770
Roy H. Stahl Chief Administrative Officer, General Counsel and Secretary	2009	280,000	—	187,425	99,098	237,700	70,809	875,033
	2008	275,158	—	170,940	121,888	166,592	67,036	801,614
	2007	259,068	—	210,715	87,556	140,967	33,019	731,325
Karl M. Kyriss Regional President - Northeastern Operations	2009	232,500	—	150,375	64,331	163,083	49,368	659,657
	2008	229,269	—	51,500	80,687	150,929	36,301	548,686
	2007	205,196	—	172,075	66,503	118,100	17,823	579,697
Christopher H. Franklin Regional President - Midwest & Southern Operations and Senior V.P. Corp. & Public Affairs	2009	207,231	—	150,375	61,123	57,784	44,020	520,533
	2008	197,269	—	51,500	49,650	56,647	33,697	388,763
	2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Notes:

- (1) Salary and Non-equity Incentive Plan Compensation amounts include amounts deferred by the individual.
- (2) The grant date fair value of restricted stock and option awards is based on their fair market value on the date of grant as determined in accordance with the Financial Accounting Standards Board's (FASB) accounting guidance for stock compensation. The assumptions used in calculating the fair market value 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) Non-Equity Plan Incentive Compensation is shown for the year in which the compensation is earned, regardless of when paid.
- (4) For 2009, includes the change in cash surrender value of life insurance which was \$-22,864 for Mr. DeBenedictis, \$-5,369 for Mr. Stahl and \$-9,200 for Mr. Franklin. There were no above market earnings in 2009. For 2008, includes earnings on deferred compensation that are above-market (above 120% of the applicable federal long-term rate as calculated on a monthly basis) of \$11,288 for Mr. DeBenedictis, \$378 for Mr. Stahl, \$410 for Mr. Smeltzer and \$9 for Mr. Franklin; and also includes the change in cash surrender value of life insurance

which was \$-29,451 for Mr. DeBenedictis, \$-8,485 for Mr. Stahl and \$5,079 for Mr. Franklin. For 2007, includes earnings on deferred compensation that are above-market (above 120% of the applicable federal long-term rate as calculated on a monthly basis) of \$45,274 for Mr. DeBenedictis, \$1,474 for Mr. Stahl, and \$1,182 for Mr. Smeltzer; and also includes the change in cash surrender value of life insurance which was \$33,668 for Mr. DeBenedictis and \$7,172 for Mr. Stahl. The change in pension value is based on the aggregate change in the actuarial present value of the named executive officer's accumulated benefit under all defined benefit and actuarial pension plans (including supplemental plans) from the pension plan measurement date used for financial statement reporting purposes the Company's audited financial statements for the prior completed fiscal year to the pension plan measurement date used for financial statement reporting purposes in the Company's audited financial statements for the covered fiscal year.

- (5) For 2009, the amount includes: (i) dividends on restricted stock grants pending their vesting or forfeiture of \$22,287 for Mr. DeBenedictis, \$6,366 for Mr. Stahl, \$5,916 for Mr. Smeltzer, \$4,825 for Mr. Kyriss, and \$4,825 for Mr. Franklin; (ii) amounts contributed by the Company to the Executive Deferral Plan representing the amount of the Company's Matching Contribution under the Company's 401(k) Plan that could not be contributed to the 401(k) Plan as a result of the Internal Revenue Code restrictions on the amount an participant can contribute as a salary deferral to the plan; (iii) dividend equivalents paid to the named executives during the year of \$177,155 to Mr. DeBenedictis, \$54,462 to Mr. Stahl, \$47,579 to Mr. Smeltzer, \$35,943 to Mr. Kyriss and \$33,019 to Mr. Franklin; (iv) Company Matching contributions to the Company's 401(k) plan and (v) perquisites for Mr. DeBenedictis consisting of reimbursement for legal services related to his employment agreement and changes to the Company's compensation plans and sporting event tickets for Mr. DeBenedictis totaling \$34,096 and \$978, respectively. For 2008, the amount includes: (i) dividends on restricted stock grants pending their vesting or forfeiture of \$18,092 for Mr. DeBenedictis, \$5,170 for Mr. Stahl, \$5,115 for Mr. Smeltzer, \$2,550 for Mr. Kyriss, and \$2,550 for Mr. Franklin; (ii) amounts contributed by the Company to the Executive Deferral Plan representing the amount of the Company's Matching Contribution under the Company's 401(k) Plan that could not be contributed to the 401(k) Plan as a result of the Internal Revenue Code restrictions on the amount an participant can contribute as a salary deferral to the plan; (iii) dividend equivalents paid to the named executives during the year of \$173,663 to Mr. DeBenedictis, \$50,035 to Mr. Stahl, \$37,214 to Mr. Smeltzer, \$24,809 to Mr. Kyriss and \$24,809 to Mr. Franklin; and (iv) Company Matching contributions to the Company's 401(k) plan. For 2007, the amount includes: (i) dividends on restricted stock grants pending their vesting or forfeiture of \$14,594 for Mr. DeBenedictis, \$5,220 for Mr. Stahl, \$4,879 for Mr. Smeltzer, and \$1,825 for Mr. Kyriss; (ii) amounts contributed by the Company to the Executive Deferral Plan representing the amount of the Company's Matching Contribution under the Company's 401(k) Plan that could not be contributed to the 401(k) Plan as a result of the Internal Revenue Code restrictions on the amount an participant can contribute as a salary deferral to the plan; (iii) dividend equivalents paid to the named executives during the year of \$55,342 to Mr. DeBenedictis, \$17,850 to Mr. Stahl, \$11,996 to Mr. Smeltzer, and \$7,933 to Mr. Kyriss; and (iv) Company Matching contributions to the Company's 401(k) plan.

Starting with the restricted stock grants to the named executive officers in 2010, dividends on shares of restricted stock are accumulated and paid to the named executive officer when the shares of restricted stock are released from restrictions. For prior restricted stock grants to the named executive officer and restricted stock grants to other grantees, dividends 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. Through December 31, 2008, amounts deferred by participants in the Company's Executive Deferral Plan earned interest at the rate of the prime rate plus 1% or were 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 were 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. Starting in 2009, all amounts deferred by participants in the

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Executive Deferral Plan and all prior deferrals under the Plan are deemed invested in a variety of mutual funds selected by each participant under trust-owned life insurance used by the Company to fund the Executive Deferral Plan, therefore, there are no preferential or above-market earnings on these deferrals in 2009. Mr. DeBenedictis continues to maintain a life insurance policy under the Plan, so the increase in the cash value of such insurance policy is included in the Change in Pension Value and Non-Qualified Deferred Compensation Earnings.

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GRANTS OF PLAN-BASED AWARDS

The following table sets forth information regarding equity and non-equity awards granted to the named executive officers in 2009.

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)(9)			All Other Stock Awards: Number of Shares or Units	All Other Option Awards: Number of Underlying Options	Exercise or Base Price of Option Awards (\$/Sh)(7)	Grant Date Fair Value of Stock and Option Awards (\$)(8)
		Threshold (\$)(2)	Target (\$)(3)	Maximum (\$)(4)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)(6)		
N. DeBenedictis	2/26/09	87,864	358,628	672,427	n/a	22,000	n/a	—	55,000	19.12	661,650
D. Smeltzer	2/26/09	26,950	110,000	206,250	n/a	6,000	n/a	—	15,000	19.12	180,450
R. Stahl	7/24/09	27,440	112,000	210,000	n/a	10,500	n/a	—	—	—	187,425
K. Kyriss	2/26/09	17,273	70,500	132,188	n/a	5,000	n/a	—	12,500	19.12	150,375
C. Franklin	2/26/09	15,435	63,000	118,125	n/a	5,000	n/a	—	12,500	19.12	150,375

- (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 35%.
- (3) The Target Non-Equity Incentive Plan Award is based on an Individual Factor of 100% and a Company Factor of 100%.
- (4) The Maximum Non-Equity Incentive Plan Award is based on the maximum Individual Factor of 150% and the maximum Company Factor of 125%.
- (5) Equity Incentive Plan Awards are shares of restricted stock. There are no threshold or maximum amounts related to the restricted stock.
- (6) Stock option awards vest in three annual installments starting on the first anniversary of the grant date.
- (7) The exercise price for stock options granted under the Company's Equity Compensation Plan is the closing price for the Company's Common Stock on the grant date.
- (8) The grant date fair value of restricted stock and option awards is based on their fair market value on the date of grant as determined under SFAS 123R. The assumptions used in calculating the fair market value under SFAS 123R are set forth in the 'Employee Stock and Incentive Plan' footnote to the Company's audited financial statements in the Company's Annual Report on Form 10-K.
- (9) The restricted stock grants for Messrs. DeBenedictis and Stahl vest in three annual installments starting on the first anniversary of the grant date, subject to the Company achieving an increase in operating income in the year immediately prior to the vesting date over the prior year. The restricted stock grants for Messrs. Smeltzer, Kyriss and

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Franklin vest on the third anniversary of the grant date, subject to the Company achieving an increase in operating income in the year immediately prior to the vesting date over the operating income in the year prior to grant date.

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 35% 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.

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Stock Awards are in the form of restricted stock and such grants have various vesting periods. The 2009 grants for Messrs. DeBenedictis and Stahl each vest in installments of one-third each year starting on the first anniversary of the grant date. The 2009 grants for Messrs. Smeltzer, Kyriss and Franklin vest at the end of three years after the grant date. In order for the grantee to receive the applicable portion of the restricted stock grant when it vests, the Company must also achieve the financial performance criteria established by the Committee. For the restricted stock grants that vest in annual installments, the performance criteria are an increase in the Company's operating income in the year ending immediately prior to the vesting date over the prior year. For the restricted stock grants that vest at the end of three years after the grant date, the performance criteria is an increase in operating income in the year prior to the vesting date over the operating income in the year prior to the grant date. The Committee has approved a policy for certain adjustments to the calculation of the Company's operating income for purposes of determining whether the designated performance criteria have been met as described on page 23.

If the Company does not achieve the required financial performance to meet the designated performance criteria, 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 in the Grants of Plan Based Awards Table above.

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 2009.

Outstanding Equity Awards At Fiscal Year-End

Name	Option Awards					Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)		
N. DeBenedictis	23,286			\$13.7550	5/15/2013			41,666 (1)	\$729,554
	56,031			\$16.1475	3/1/2014				
	93,333			\$18.3338	2/28/2015				
	55,000			\$29.4600	3/7/2016				
	36,666	18,334 (6)		\$23.2600	2/22/2017				
	18,334	36,666 (7)		\$20.1800	2/26/2018				
		55,000 (8)		\$19.1200	2/26/2019				
D. Smeltzer								11,000 (2)	\$192,610
	12,121			\$11.4600	3/6/2011				
	20,831			\$12.4875	6/17/2012				
	20,831			\$13.7550	5/15/2013				
	20,000			\$16.1475	3/1/2014				
	19,999			\$18.3338	2/28/2015				
	15,000			\$29.4600	3/7/2016				
	10,000	5,000 (6)		\$23.2600	2/22/2017				
	5,000	10,000 (7)		\$20.1800	2/26/2018				
		15,000 (8)		\$19.1200	2/26/2019				

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Name	Option Awards		Equity Incentive Plan Awards:			Stock Awards		Equity Incentive Plan Awards:
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
R. Stahl								15,500 (3) \$271,405
	13,180			\$ 11.4600	3/6/2011			
	29,998			\$ 12.4875	6/17/2012			
	29,998			\$ 13.7550	5/15/2013			
	30,000			\$ 16.1475	3/1/2014			
	26,666			\$ 18.3338	2/28/2015			
	17,000			\$ 29.4600	3/7/2016			
	11,333	5,667 (6)		\$ 23.2600	2/22/2017			
	5,667	11,333 (7)		\$ 20.1800	2/26/2018			
K. Kyriass								10,000 (4) \$175,100
	13,333			\$ 12.4830	3/3/2013			
	13,332			\$ 16.1475	3/1/2014			
	13,332			\$ 18.3338	2/28/2015			
	12,000			\$ 29.4600	3/7/2016			
	6,666	3,334 (6)		\$ 23.2600	2/22/2017			
	4,167	8,333 (7)		\$ 20.1800	2/26/2018			
		12,500 (8)		\$ 19.1200	2/26/2019			
C. Franklin								10,000 (5) \$175,100
	6,522			\$ 11.4600	3/6/2011			
	11,666			\$ 12.4875	6/17/2012			
	13,331			\$ 12.4830	3/3/2013			
	13,333			\$ 16.1475	3/1/2014			
	13,332			\$ 18.3338	2/28/2015			
	10,000			\$ 29.4600	3/7/2016			
	6,666	3,334 (6)		\$ 23.2600	2/22/2017			
	4,167	8,333 (7)		\$ 20.1800	2/26/2018			
		12,500 (8)		\$ 19.1200	2/26/2019			

Notes:

- (1) Of Mr. DeBenedictis' 41,666 restricted shares of common stock, 5,000 shares vest on February 22, 2010, 14,667 shares vest on February 26, 2010, 14,666 shares vest on February 26, 2011, 7,333 shares vest on February 26, 2012.
- (2) Of Mr. Smeltzer's 11,000 restricted shares of common stock, 1,667 shares vest on February 22, 2010, 1,667 shares vest on February 26, 2010, 1,666 shares vest on February 26, 2011, 6,000 shares vest on February 26, 2012.
- (3) Of Mr. Stahl's 15,500 restricted shares of common stock, 1,667 shares vest on February 22, 2010, 1,667 shares vest on February 26, 2010, 3,500 shares vest on July 24, 2010, 1,666 shares vest on February 26, 2011, 3,500 shares vest on July 24, 2011 and 3,500 shares vest on July 24, 2012.

- (4) Of Mr. Kyriss' 10,000 restricted shares of common stock, 5,000 shares vest on February 22, 2010 and 5,000 shares vest on February 26, 2012.

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- (5) Of Mr. Franklin's 10,000 restricted shares of common stock, 5,000 shares vest on February 22, 2010 and 5,000 shares vest on February 26, 2012.
- (6) 100% vest on February 22, 2010.
- (7) 50% vest on February 26, 2010 and 50% vest on February 26, 2011.
- (8) One third vest on February 26, 2010, one third vest on February 26, 2011, and one third vest on February 26, 2012.

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 2009 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 2009, 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 Number of Shares		Stock Awards Number of Shares		Value Realized on Vesting (\$)
	Acquired on Exercise (#)	Value Realized on Exercise (\$)	Acquired on Vesting (#)		
N. DeBenedictis					