

AQUA AMERICA INC  
Form DEF 14A  
March 24, 2017  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**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

**Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

**Aqua America, Inc.**



3) Filing Party:

4) Date Filed:

**Table of Contents**

**AQUA AMERICA, INC.**

**2017 ANNUAL MEETING OF SHAREHOLDERS**

Table of Contents

**LETTER TO OUR SHAREHOLDERS**

Christopher H. Franklin  
President and Chief  
Executive Officer

Dear Fellow Shareholder,

We look forward to seeing you at our 2017 Annual Meeting of Shareholders which will be held on Wednesday, May 3, 2017 at the Drexelbrook Banquet Facility & Corporate Events Center, 4700 Drexelbrook Drive, Drexel Hill, PA 19026 at 8:30 a.m. Eastern Standard Time.

During 2016, our leadership team remained focused on growing our customer base through acquisitions, prudently investing capital to renew our aging infrastructure, and creating efficiencies across the organization. Our efforts help to ensure quality water and wastewater for our customers as well as shareholder value.

We plan to continue our ongoing commitment to maintaining a sustainable business by capitalizing on our core capabilities. We are optimistic about the increasing volume of opportunities we see in the water and wastewater markets, which should allow us to bring our world-class service to more customers.

My team and I will speak more about these topics at the Annual Meeting. In the meantime, I would like to share the following list of notable accomplishments our company has experienced during 2016 the year of our 130<sup>th</sup> anniversary:

Revenues increased to \$819.9 million from \$814.2 million in 2015;

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Earnings per share increased to \$1.32, an increase of 4.8% over the 2015 adjusted income per share (Non-GAAP financial measure) of \$1.26 per share;\*

The Board of Directors approved a 7.5% increase in the quarterly dividend;

We invested a record of \$383.0 million to improve our distribution network and enhance water quality and reliability for our customers;

We added more than 6,500 customer connections through 19 regulated water and wastewater acquisitions, including 4 municipal deals;

We increased our total customer connection count by 1.6%, which includes additional customers from organic and acquisition growth;

We lowered our weighted average cost of fixed rate, long-term debt to 4.26%; and

We divested a majority of our non-scalable, non-strategic market based activities.

*\*See Appendix B for a reconciliation of non-GAAP financial measures to GAAP financial measures.*

I am honored to serve as the President and Chief Executive Officer of what I believe is the best water and wastewater company in the nation, and I look forward to seeing you at our Annual Meeting in May.

Sincerely,

Christopher H. Franklin

Table of Contents

**AQUA AMERICA, INC.**

762 W. Lancaster Avenue

Bryn Mawr, Pennsylvania 19010

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

Wednesday, May 3, 2017 at 8:30 A.M. local time

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** on **Wednesday, May 3, 2017**, at **8:30 A.M.**, local time, for the following purposes:

1. To consider and take action on the election of eight nominees for directors;
2. To consider and take action on the ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for the 2017 fiscal year;
3. To approve an advisory vote on the compensation paid to the Company's named executive officers for 2016, as disclosed in the Proxy Statement;
4. To approve an advisory vote on whether the frequency of the advisory vote on the compensation paid to the Company's named executive officers should be every 1, 2 or 3 years; and
5. 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 7, 2017 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,

CHRISTOPHER P. LUNING

Secretary

March 24, 2017

*We urge each shareholder to promptly sign and return the enclosed proxy card or to use telephone or internet voting. See our questions and answers about the meeting and the voting section of the proxy statement for information about voting by telephone or internet, how to revoke a proxy and how to vote your shares in person.*



Table of Contents

**TABLE OF CONTENTS**

<u>PROXY STATEMENT</u>	1
<u>PURPOSE OF THE MEETING .</u>	1
<u>QUESTIONS AND ANSWERS ABOUT THE 2017 ANNUAL MEETING</u>	2
<u>PROPOSALS UNDER CONSIDERATION AT THIS MEETING</u>	4
<u>PROCESS FOR SUBMITTING SHAREHOLDER PROPOSALS FOR THE NEXT ANNUAL MEETING</u>	5
<u>NOMINATING CANDIDATES FOR DIRECTOR</u>	6
<u>CONSIDERATION OF DIRECTOR CANDIDATES</u>	6
<u>COMMUNICATIONS WITH THE COMPANY OR INDEPENDENT DIRECTORS</u>	7
<u>PROPOSAL NO. 1</u>	8
<u>ELECTION OF DIRECTORS</u>	8
<u>CORPORATE GOVERNANCE</u>	15
<u>DIRECTOR COMPENSATION</u>	23
<u>PROPOSAL NO. 2</u>	24
<u>RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE COMPANY FOR THE 2017 FISCAL YEAR</u>	24
<u>REPORT OF THE AUDIT COMMITTEE</u>	25
<u>PROPOSAL NO. 3</u>	26
<u>ADVISORY VOTE ON THE COMPENSATION PAID TO THE COMPANY S NAMED EXECUTIVE OFFICERS FOR 2016</u>	26
<u>EXECUTIVE COMPENSATION</u>	27
<u>COMPENSATION DISCUSSION &amp; ANALYSIS</u>	28
<u>2016 EXECUTIVE COMPENSATION</u>	50
<u>REPORT OF THE EXECUTIVE COMPENSATION COMMITTEE</u>	66
<u>OWNERSHIP OF COMMON STOCK</u>	67
<u>PROPOSAL NO. 4</u>	69
<u>ADVISORY VOTE ON THE FREQUENCY OF THE ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	69
<u>ADDITIONAL INFORMATION</u>	70
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	70
<u>OTHER MATTERS</u>	70
<u>APPENDIX A</u>	A-1
<u>APPENDIX B</u>	B-1

**Table of Contents**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 3, 2017**

*The Notice of Annual Meeting, Proxy Statement and 2016 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 (the **Proxy Statement**) is furnished in connection with the solicitation of proxies by the Board of Directors (the **Board of Directors** or the **Board**) of Aqua America, Inc. ( **Aqua America**, **Aqua** or the **Company** ) to be used at the Annual Meeting of Shareholders to be held on Wednesday, May 3, 2017 at 8.30 a.m., local time, and at any adjournments or postponements thereof ( **2017 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 (the **NYSE**) 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 Alliance Advisors LLC 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 Alliance Advisors LLC for normal proxy solicitation does not exceed \$7,500 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.

Under rules adopted by the U.S. Securities and Exchange Commission ( **SEC** ), the Company is now furnishing proxy materials to many of its shareholders on the Internet, rather than mailing printed copies of those materials to each shareholder. If you received a notice of availability over the Internet of the proxy materials ( **Notice** ) by mail, you will not receive a printed copy of the proxy materials unless you request one. Instead, the Notice will instruct you as to how you may access and review the proxy materials on the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, please follow the instructions included in the Notice. The Notice is being sent to shareholders of record as of March 7, 2017 on or about March 24, 2017. Proxy materials, which include the Notice of Annual Meeting of Shareholders, this Proxy Statement and the Annual Report to Shareholders for the year ended December 31, 2016, including financial statements and other information with respect to the Company and its subsidiaries (the **Annual Report** ), are first being made available to shareholders of record as of March 7, 2017, on or about March 24, 2017. 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 70.

**PURPOSE OF THE MEETING**

As the meeting is the Annual Meeting of Shareholders, the shareholders of the Company will be requested to:

Consider and take action on the election of eight nominees for directors;

Consider and take action on the ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for the 2017 fiscal year;

Approve a non-binding advisory vote on the compensation paid to the Company's named executive officers for 2016 as disclosed in this Proxy Statement;

Approve an advisory vote on whether the frequency of the advisory vote on the compensation paid to the Company's named executive officers should be every 1, 2 or 3 years; and

Transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE 2017 ANNUAL MEETING**

**Who is entitled to vote?**

Holders of shares of the Company's common stock (the "Common Stock") of record at the close of business on March 7, 2017 are entitled to vote 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.

**How many shares can vote?**

As of March 7, 2017, there were 177,567,809 shares of Common Stock outstanding and entitled to be voted at the meeting.

**How do I cast my vote?**

Shares can be voted in the following four ways:

in person at the meeting;

by proxy at the meeting;

electronically via the Internet, according to the instructions set out on the proxy card; or

by telephone, according to the instructions set out on the proxy card.

**What is the proxy?**

The proxy card or electronic proxy that you are being asked to give is a means by which a shareholder may authorize the voting of his or her shares at the meeting if he or she is unable to attend in person. The individuals to whom you are giving a proxy to vote your shares are Christopher P. Luning, our Senior Vice President, General Counsel and Secretary, and David P. Smeltzer, our Executive Vice President and Chief Financial Officer.

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 proxy card or electronic proxy, or voting via telephone. 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.

**If a proxy is executed, can a shareholder still attend the meeting in person?**

Yes. Execution of the accompanying proxy or voting through an electronic proxy or voting by telephone will not affect a shareholder's right to

attend the meeting and, if desired, vote in person. You can submit a proxy and still attend the meeting without voting in person.

**Can a shareholder revoke or change his or her vote?**

Yes. Any shareholder giving a proxy card or voting by electronic proxy or voting 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.

## **Table of Contents**

### **What are the voting requirements to approve the proposals presented in the Proxy Statement?**

The Company's Articles of Incorporation and Bylaws, as amended, 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, other than the election of directors, on the recommendation of a vote of a majority of the entire Board of Directors (i.e., Proposals 2, 3, and 4). Abstentions and broker non-votes, if any, will have

no effect with respect to such matters, other than for purposes of determining the presence of a quorum.

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, other than the election of directors, without the recommendation of a vote of a majority of the entire Board of Directors.

### **What is a quorum?**

A quorum of shareholders is necessary to hold a valid meeting of shareholders 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.

### **What is a broker non-vote?**

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 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 2016 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, the advisory vote on the compensation paid to the Company's named executive officers for 2016 or the advisory vote on the frequency of the advisory vote on the compensation paid to the Company's named executive officers without instructions from you. Without your voting instructions on these matters, a broker non-vote will occur.

***YOUR PROXY VOTE IS IMPORTANT. ACCORDINGLY, YOU ARE ASKED TO COMPLETE, SIGN AND RETURN THE PROXY CARD OR SUBMIT AN ELECTRONIC PROXY, VOTE TELEPHONICALLY OR PROVIDE YOUR BROKER WITH INSTRUCTIONS ON HOW TO VOTE YOUR SHARES, REGARDLESS OF WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING.***



**Table of Contents**

**PROPOSALS UNDER CONSIDERATION AT THIS MEETING**

**How are directors elected?**

Under the Company's Articles of Incorporation and Bylaws, directors are elected by a plurality of the votes cast at the meeting. A description of the Company's majority voting resignation policy is set forth in the answer to the question below. Votes may be cast FOR or WITHHOLD for each nominee. 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. Abstentions will have no effect on the election of directors. The director nominees who receive the highest number of votes up to the number of directors to be elected will be elected at the meeting. All of the directors elected at the 2017 Annual Meeting will be elected for one year terms expiring at the 2018 Annual Meeting and until their successors are duly elected and qualified.

**What if an incumbent director receives more WITHHOLD votes than FOR votes in an uncontested election?**

In 2011, the Board of Directors adopted a majority voting resignation policy for the election of directors in uncontested elections. Under this policy, in an election where the only nominees are those recommended by the Board of Directors, any incumbent director who is nominated for re-election and who receives a greater number of WITHHOLD votes than FOR votes for the director's election shall promptly tender his or her resignation to the Board of Directors. The Board shall evaluate the relevant facts and circumstances in connection with such director's resignation, giving due consideration to the best interests of the Company and its shareholders. Within 90 days after the election, the independent directors shall make a decision on whether to accept or reject the tendered resignation, or whether other action should be taken. The Board of Directors

will promptly disclose publicly its decision and the reasons for its decision.

The Board of Directors believes that this process enhances accountability to shareholders and responsiveness to shareholder votes, while allowing the Board of Directors appropriate discretion in considering whether a particular director's resignation would be in the best interests of the Company and its shareholders.

The Company's majority voting resignation policy is set forth in the Company's Corporate Governance Guidelines. Copies of the Corporate Governance Guidelines can be obtained free of charge from the Corporate Governance portion of the Investor Relations section of the Company's website, [www.aquaamerica.com](http://www.aquaamerica.com).

**Why are the shareholders asked to vote on the ratification of the selection of the independent registered public accounting firm?**

The Audit Committee of our Board of Directors carefully considers the qualifications of the independent auditors before engaging them to conduct an audit, and has the oversight authority with respect to the performance of the independent auditors. The Board of Directors thinks it is important to provide an opportunity for the shareholders to voice any concern with respect to the independent auditors selected, which is the reason for this ratification vote. Under the Company's Articles of Incorporation 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 2017 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.

**What is the impact of the advisory vote on the compensation paid to the Company's named executive officers, referred to as "Say on Pay" vote?**

The Board of Directors and the Executive Compensation Committee, which is comprised of independent directors, value the opinions of the Company's shareholders and expect to take into

account the outcome of the non-binding advisory vote when considering future executive compensation decisions to the extent they can determine the cause or causes of any significant negative voting results.

**Table of Contents**

**Why are shareholders being asked to provide an advisory vote on the frequency of how often the Say on Pay vote will be submitted to shareholders in future years?**

The Company first submitted to shareholders an advisory vote on the compensation of its named executive officers in its 2011 proxy statement. At that time, the shareholders overwhelmingly supported the provision of the Say on Pay vote every year, which advisory vote was adopted

by the Board of Directors in 2011. Applicable law requires the Company to seek an advisory vote of the frequency of the Say on Pay vote at least once every six years, therefore we are providing this advisory vote on the frequency of the Say on Pay vote at the 2017 Annual Meeting.

**What does the Board of Directors recommend for the frequency advisory vote on named executive officer compensation?**

Since 2011, the advisory vote on say-on-pay for our named executive officers has achieved greater than 92% support from shareholders. The Executive Compensation Committee of the Board of Directors considers the advisory vote results each year in making compensation decisions for the following year. The Board of Directors believes that annual advisory votes provide shareholders

with the opportunity to voice support or concern regarding the named executive officer compensation on a more timely basis, which is why the Board of Directors is recommending that the shareholders select the annual frequency so that such annual Say on Pay votes will continue.

**PROCESS FOR SUBMITTING SHAREHOLDER PROPOSALS FOR THE NEXT ANNUAL MEETING**

**Who can submit a shareholder proposal at an Annual Meeting?**

Shareholders may submit proposals, which are proper subjects for inclusion in the Company's Proxy Materials, which are this Proxy Statement and the form of proxy attached, for consideration at an

Annual Meeting of Shareholders, by following the procedures prescribed by Rule 14a-8(e) of the Securities Exchange Act of 1934, as amended.

**What is the deadline for submitting shareholder proposals for inclusion in the Company's Proxy Materials for the next Annual Meeting?**

To be eligible for inclusion in the Company's Proxy Materials relating to the 2018 Annual Meeting of Shareholders, proposals must be submitted in

writing and received by the Company at the address below no later than November 24, 2017.

**What is the deadline for proposing business to be considered at the next Annual Meeting, but not to have the proposed business included in the Company's Proxy Materials?**

A shareholder of the Company may wish to propose business to be considered at an Annual Meeting of Shareholders, but not to have the proposed business included in the Company's Proxy Materials relating to that meeting. Section 3.17 of the Company's Bylaws requires that the Company receive written notice of business that a shareholder wishes to present for consideration at the 2018 Annual Meeting of Shareholders (other than matters included in the Company's Proxy Materials) not earlier than January 3, 2018 or later than February 2, 2018. The notice must meet certain other

requirements set forth in the Company's Bylaws. Copies of the Company's Bylaws can be obtained by submitting a written request to the Secretary of the Company at the address below:

Proposals, notices and requests for copy by our Bylaws should be addressed as follows:

CORPORATE SECRETARY

AQUA AMERICA, INC.

762 W. LANCASTER AVENUE

BRYN MAWR, PA 19010



**Table of Contents**

**NOMINATING CANDIDATES FOR DIRECTOR**

**How does a shareholder nominate a director for election to the Board of Directors at the 2017 Annual Meeting?**

A shareholder entitled to vote for the election of directors may make a nomination for director provided that written notice (the "Nomination Notice") of the shareholder's intent to nominate a director at the meeting is filed with the Secretary of the Company prior to the 2017 Annual Meeting in accordance with provisions of the Company's Articles of Incorporation and Bylaws.

Section 4.14 of the Company's Bylaws requires the Nomination Notice to be received by the Secretary of the Company not less than 14 days nor more than 50 days prior to any meeting of the shareholders called for the election of directors, with certain exceptions. These notice requirements do not apply to nominations for which proxies are solicited under applicable regulations of the SEC. The Nomination Notice must contain or be accompanied by the following information:

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

**What is the deadline for submitting a Nomination Notice for the 2017 Annual Meeting?**

Pursuant to the above requirements, a Nomination Notice for the 2017 Annual Meeting must be received by the Secretary of the Company no later than April 19, 2017.

## **CONSIDERATION OF DIRECTOR CANDIDATES**

### **Who chooses director candidates?**

The Corporate Governance Committee identifies, evaluates and recommends director candidates to our Board of Directors for nomination. The process followed by our Corporate Governance Committee to identify and evaluate director candidates includes

requests to current directors and others for recommendations, consideration of candidates proposed by shareholders, meetings from time to time to evaluate potential candidates and interviews of potential candidates.

**Table of Contents**

**How are director candidates evaluated?**

In considering candidates for director, the Corporate Governance Committee will consider the candidates' personal abilities, qualifications, independence, knowledge, judgment, character, leadership skills, education, background and their expertise and experience in fields and disciplines relevant to the Company, including financial expertise or financial literacy. When assessing a candidate, consideration will be given to the effect such candidate will have on the diversity of the Board. Diversity of the Board is evaluated by considering a broad range of attributes, such as background, demographic (including, without limitation, race, gender and national origin),

expertise and experience. Due consideration will also be given to the position the candidate holds at the time of his or her nomination and his or her capabilities to advance the Company's interests with its various constituencies. The Corporate Governance Committee considers all of these qualities when selecting, subject to ratification by our Board of Directors, candidates for director.

The Corporate Governance Committee will evaluate shareholder-recommended candidates in the same manner as it evaluates candidates recommended by others.

**What is the deadline for submitting a shareholder recommendation for a director candidate at the 2018 Annual Meeting?**

If you would like a director candidate considered by the Corporate Governance Committee for selection as a nominee at the 2018 Annual Meeting, such recommendation should be submitted to the Chairperson of the Corporate Governance

Committee at least 120 days before the date on which the Company first mailed its proxy materials for the prior year's Annual Meeting of Shareholders—that is, with respect to the 2018 Annual Meeting, no later than November 24, 2017.

**COMMUNICATIONS WITH THE COMPANY OR INDEPENDENT DIRECTORS**



Edgar Filing: AQUA AMERICA INC - Form DEF 14A

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

CORPORATE SECRETARY

AQUA AMERICA, INC.

762 W. LANCASTER AVENUE

BRYN MAWR, PA 19010

In addition, shareholders or other interested parties may communicate directly with the independent directors or the lead independent director by writing

to the address set forth below. The Company will review all such correspondence and provide any comments along with the full text of the shareholder s or other interested party s communication to the independent directors or the lead independent director.

THE INDEPENDENT DIRECTORS OR

LEAD INDEPENDENT DIRECTOR

AQUA AMERICA, INC.

C/O CORPORATE SECRETARY

762 W. LANCASTER AVENUE

BRYN MAWR, PA 19010

**Table of Contents****PROPOSAL NO. 1****ELECTION OF DIRECTORS**

All of the directors who are elected, will be elected for a one-year term expiring at the 2018 Annual Meeting, and until their successors are duly elected and qualified. In accordance with the Company's Corporate Governance Guidelines, the Chairperson of the Corporate Governance Committee reported to the Corporate Governance Committee that Carolyn J. Burke, Nicholas DeBenedictis, Christopher H. Franklin, Richard H. Glanton, Lon R. Greenberg, William P. Hankowsky, Wendell F. Holland, and Ellen T. Ruff would be willing to serve on the Board of Directors, if elected. The Corporate Governance Committee reviewed the qualifications of the 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 Ms. Burke, Mr. DeBenedictis, Mr. Franklin, Mr. Glanton, Mr. Greenberg, Mr. Hankowsky, Mr. Holland, and Ms. Ruff for election as directors at the 2017 Annual Meeting, with each nominee abstaining from the vote with respect to his or her nomination.

Therefore, eight directors will stand for election by a plurality of the votes cast at the 2017 Annual Meeting. At the 2017 Annual Meeting, proxies in the accompanying form, properly executed, will be voted for the election of the 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 "What is the proxy?" on page 2 and "Proposals Under Consideration at This Meeting" on page 4). Discretionary authority is reserved to cast votes for the election of a substitute should any nominee be unable or become unwilling to serve as a director. Each nominee has stated his or her willingness to serve and the Company believes that the nominees will be available to serve.

**INFORMATION REGARDING NOMINEES**

For each of the eight nominees for election as directors at the 2017 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 at least 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 opinion of the Corporate Governance Committee and the Board of Directors, make the individual qualified to serve as a director of the Company. The chart below summarizes the experience, qualifications, attributes, and skills of each of the nominees:

**Experience,****Qualifications,**

<b>Attributes and Skills</b>	<b>Utility Industry</b>	<b>Regulatory</b>	<b>Financial</b>	<b>Legal/ Government</b>	<b>Leadership</b>	<b>Mergers and Acquisitions</b>
BURKE	X	X	X		X	X

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

DEBENEDICTIS	X	X	X	X	X	X
FRANKLIN	X	X	X	X	X	X
GLANTON				X	X	X
GREENBERG	X	X	X	X	X	X
HANKOWSKY			X	X	X	X
HOLLAND	X	X		X	X	X
RUFF	X	X		X	X	X

Table of Contents

**NOMINEES FOR ELECTION AT THE 2017 ANNUAL MEETING**

**CAROLYN J. BURKE**

EXECUTIVE VP, STRATEGY, DYNEGY, INC.

AGE: 49

DIRECTOR SINCE 2016

MEMBER, AUDIT COMMITTEE

MEMBER, EXECUTIVE COMPENSATION COMMITTEE

**Biography:** Ms. Burke has served as Executive Vice President, Strategy at Dynegy, Inc. since October 2016. In this role, she leads Dynegy's strategic planning activities and is responsible for its clean technology strategy. Since October 2014, she has also served as Chief Integration Officer with overall responsibility for integration management, most recently integrating Dynegy's acquisition of ENGIE's US fossil portfolio. From July 2015 through October 2016, Ms. Burke served as Executive Vice President, Business Operations and Systems at Dynegy with overall responsibility for Procurement, Safety, Environmental, Information Technology, Construction & Engineering, Outage Services and PRIDE-Dynegy's signature continuous margin and process improvement program. From August 2011 to October 2014, Ms. Burke served as Dynegy's Chief Administrative Officer over corporate functions including Communications, Human Resources, Information Technology, Investor Relations and Regulatory Affairs. Prior to joining Dynegy, Ms. Burke served as Global Controller for J.P. Morgan's Global Commodities business. She was also NRG Energy's Vice President & Corporate Controller from 2006 to 2008 and Executive Director of Planning and Analysis from 2004 to 2006. Early in her career, she held various key financial roles at Yale University, the University of Pennsylvania and at Atlantic Richfield Company. Ms. Burke graduated from Wellesley College with a BA in Economics and Political Science and earned her MBA at The University Chicago Booth School of Business.

**Qualifications:** Ms. Burke has over 20 years of experience in various roles within the energy and infrastructure industry with responsibilities ranging from accounting and finance, to information technology and human resources to operations and environmental compliance. The Board of Directors views Ms. Burke's independence, her broad experience in finance and operations, and her leadership roles within the industry as important qualifications, skills and experience that support the Board of Directors' conclusion that Ms. Burke should serve as a director of the Company.

**NICHOLAS DEBENEDICTIS**

NON-EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS AND FORMER CEO, AQUA AMERICA, INC.

AGE: 71

DIRECTOR SINCE 1992

MEMBER, EXECUTIVE COMMITTEE

MEMBER, RISK MITIGATION AND INVESTMENT POLICY COMMITTEE

**Biography:** Mr. DeBenedictis retired as Chief Executive Officer of the Company on June 30, 2015 and currently serves as non-executive Chairman of the Board, a position that he has held since July 2015. Mr. DeBenedictis has been Chairman of the Board since May 1993. Between April 1989 and June 1992, he served as Senior Vice President for Corporate Affairs of PECO Energy Company (an Exelon Corporation). From December 1986 to

**Table of Contents**

April 1989, he served as President of the Greater Philadelphia Chamber of Commerce and from 1983 to 1986 he served as the Secretary of the Pennsylvania Department of Environmental Resources. Mr. DeBenedictis is a director of Exelon Corporation, P.H. Glatfelter Company and Mistras Group. He also serves on the Boards of Pennsylvania area non-profit, civic and business organizations

**Qualifications:** In addition to his knowledge and experience as the Company's Chief Executive Officer from 1992 to 2015, 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 three other public companies, including, from time to time, as a member of the corporate governance, audit, finance and compensation committees of those companies. Mr. DeBenedictis has also held leadership positions with various, educational, business, 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 supporting the Board of Directors' conclusion that Mr. DeBenedictis should serve as a director of the Company.

**CHRISTOPHER H. FRANKLIN**

PRESIDENT AND CHIEF EXECUTIVE OFFICER, AQUA AMERICA, INC.

AGE: 51

DIRECTOR SINCE 2015

MEMBER, RISK MITIGATION AND INVESTMENT POLICY COMMITTEE

**Biography:** Christopher H. Franklin is President and Chief Executive Officer of the Company. Previously, Mr. Franklin served as our Executive Vice President and President and Chief Operating Officer, Regulated Operations (January 2012 to 2015); Regional President Midwest and Southern Operations and Senior Vice President, Public Affairs (January 2010 to January 2012); Regional President Southern Operations and Senior Vice President, Public Affairs and Customer Relations (February 2007 to 2010); Vice President, Public Affairs and Customer Relations (May 2005 to February 2007); Vice President, Corporate and Public Affairs (1997 to May 2005); and Manager Corporate & Public Affairs (December 1992 to 1997).

**Qualifications:** Since joining the Company in December 1992 as manager, corporate and public affairs, Mr. Franklin headed several successful projects, including advocacy for the passage of legislation designed to provide customers of state-regulated water and wastewater utilities with improved water quality and better water and wastewater systems while allowing a fair and reasonable return for shareholders. Mr. Franklin also attained national print and broadcast media coverage for the Company changed the name and rebranded the Company and its subsidiaries, and expanded its investor relations outreach to increase analyst coverage of the Company. Before joining the Company, Mr. Franklin

worked at PECO Energy Company (an Exelon company) where he was regional, civic and economic development officer, responsible for the review, recommendation and promotion of economic development initiatives in the Philadelphia region. Mr. Franklin earned his B.S. from West Chester University and his M.B.A. from Villanova University. In addition, Mr. Franklin is active in the community and serves on the following nonprofit boards: University of Pennsylvania Board of Trustees, Philadelphia, PA and West Chester University's Council of Trustees, West Chester, PA.

Table of Contents

**RICHARD H. GLANTON**

LEAD INDEPENDENT DIRECTOR, AQUA AMERICA, INC.

FOUNDER, CHAIRMAN AND CEO, ELECTEDFACE INC.

AGE: 70

DIRECTOR SINCE 1995

MEMBER, EXECUTIVE COMMITTEE

CHAIR, RISK MITIGATION AND INVESTMENT POLICY COMMITTEE

**Biography:** Mr. Glanton is Founder, Chairman and Chief Executive Officer of ElectedFace Inc., an on-line social media website which consolidates 21 of the most proven and popular social media features and functions into one platform to connect individuals and organizations of all types, including government officials and agencies, educational institutions and their leaders, businesses, faith groups, cultural icons and establishments, and community organizations and associations. 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.

**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 Corporation. Mr. Glanton has approximately 29 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, is traded 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 a director of PECO Energy/Exelon Corporation until he resigned to assume a senior management position within the company at the request of its Chairman. He served on the 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, and as Chairman of the Audit and Finance Committee and a member of its Governance and Compensation Committees. 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 that support the Board of Directors' conclusion that Mr. Glanton should serve as a director of the Company.



**LON R. GREENBERG**

CHAIRMAN EMERITAS OF THE BOARD AND RETIRED CEO, UGI CORPORATION

AGE: 66

DIRECTOR SINCE 2005

CHAIR, EXECUTIVE COMPENSATION COMMITTEE

MEMBER, EXECUTIVE COMMITTEE

MEMBER, AUDIT COMMITTEE

**Biography:** Mr. Greenberg is Chairman Emeritus of UGI Corporation. He retired from his position as non-executive Chairman of the Board of Directors of UGI Corporation on January 28, 2016, where he served as Chairman since August 1996 and Chief Executive Officer since August 1995, until his retirement in April 2013.

**Table of Contents**

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, the Chairman of the Board of Trustees of the Temple University Health System, and a member of the Board of Trustees of Fox Chase Cancer Center. Mr. Greenberg also is a member of the Board of Directors of The United Way of Greater Philadelphia and Southern New Jersey and of the Board of Managers of The Philadelphia Foundation. Mr. Greenberg serves as a director of Ameriprise Financial, Inc. and AmerisourceBergen Corporation.

**Qualifications:** Mr. Greenberg has over 30 years of experience in various executive, legal and corporate development roles with a NYSE listed regulated utility, non-regulated energy distribution company and international distributor of propane, where he also served as Chairman and Chief Executive Officer for 18 years. He presently serves as a director for a NYSE listed financial planning, products and services company, as well as a NYSE listed global pharmaceutical sourcing and distribution services company. 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 was appointed Committee Chairman in 2015. He has served as a member of the Company’s Audit Committee since 2009, serving as Chairman from 2012 through 2015. 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 that support the Board of Directors’ conclusion that Mr. Greenberg should serve as a director of the Company.

**WILLIAM P. HANKOWSKY**

CHAIRMAN, PRESIDENT AND CEO, LIBERTY PROPERTY TRUST

AGE: 66

DIRECTOR SINCE 2004

CHAIR, AUDIT COMMITTEE

MEMBER, EXECUTIVE COMMITTEE

MEMBER, CORPORATE GOVERNANCE COMMITTEE

**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 and on various charitable and civic boards, including the Greater Philadelphia Chamber of Commerce and the Pennsylvania Academy of Fine Arts.

**Qualifications:** Mr. Hankowsky has over 35 years of experience managing public, private and non-profit organizations, including eleven years as Chairman and Chief Executive Officer of Liberty Property Trust, a publicly traded Real Estate Investment Trust which owns 100 million square feet of office and industrial space in over 24 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 greater Philadelphia region. Mr. Hankowsky has served as Chairman of the Company's Executive Compensation Committee from 2005 through 2015, and presently serves as Chairman of the Company's Audit Committee. 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

**Table of Contents**

applicable SEC rules. The Board of Directors views Mr. 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.

**WENDELL F. HOLLAND**

PARTNER, CFSD GROUP, LLC

AGE: 65

DIRECTOR SINCE 2011

MEMBER, CORPORATE GOVERNANCE COMMITTEE

MEMBER, RISK MITIGATION AND INVESTMENT POLICY COMMITTEE

**Biography:** Mr. Holland has been a partner in CFSD Group, LLC, advisors for local and regional utility financing, since July 2009. Mr. Holland was partner in the law firm of Saul Ewing, LLP from October 2008 to September 2013. Mr. Holland served as Chairman of the Pennsylvania Public Utility Commission from 2004 to 2008 and as a Commissioner from 1990 to 1993, and 2003 to 2004. Mr. Holland was Of Counsel to the law firm of Obermayer Rebman from 1999 to 2003, Vice President of American Water Works Company from 1996 to 1999 and a partner at the law firm of LeBoeuf Lamb Greene and McRae from 1993 to 1995. He has served as Treasurer of the National Association of Utility Regulatory Commissioners (NARUC) and also served on NARUC's Executive Committee, Board of Directors, and as Chairman of its Audit and Investment Committees. He is a director of Bryn Mawr Trust Bank and was a member of the Allegheny Energy Board of Directors from 1994 to 2003.

**Qualifications:** Mr. Holland has extensive knowledge and experience in the regulation of public utilities, especially water utilities. His experience as chairman of the Public Utility Commission in Pennsylvania for four years and a Commissioner for an additional four years enables him to provide valuable insight into the regulatory process. His prior service as a member of the Board of Directors of a large, publicly traded energy company also enables him to play a meaningful role on the Company's Board of Directors. As outside counsel to, and an executive at other public utility companies, he has a valuable perspective on the various issues facing public utility companies. The Board of Directors has determined that Mr. Holland is an independent director. The Board of Directors views Mr. Holland's independence, his experience with utility regulation and utility operations, his reputation in the utility industry and his leadership roles in business and community activities as important qualifications, skills and experience supporting the Board of Directors' conclusion that Mr. Holland should serve as a director of the Company.



Table of Contents

***ELLEN T. RUFF***

PARTNER, MCGUIREWOODS, LLP AND FORMER PRESIDENT, DUKE ENERGY

AGE: 68

DIRECTOR SINCE 2006

CHAIR, CORPORATE GOVERNANCE COMMITTEE

MEMBER, EXECUTIVE COMMITTEE

MEMBER, EXECUTIVE COMPENSATION COMMITTEE

MEMBER, AUDIT COMMITTEE

**Biography:** Ms. Ruff is a partner in the law firm of McGuireWoods, LLP. She was President, Office of Nuclear Development, for Duke Energy Corporation, from December 2008 until her retirement in January 2011. Duke Energy Corporation is 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, an electric utility that provides electricity and other services to customers in North Carolina and South Carolina. Ms. Ruff joined Duke Energy in 1978 and during her career held a number of key positions, including: Vice President and General Counsel of Corporate, Gas and Electric Operations; Senior Vice President and General Counsel for Duke Energy; Senior Vice President of Asset Management for Duke Power; Senior Vice President of Power Policy and Planning; and Group Vice President of Planning and External Affairs. Ms. Ruff is a retired director of Mistras Group, Inc.

**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 supporting the Board of Directors' conclusion that Ms. Ruff should serve as a director of the Company.



**Table of Contents**

**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 website, [www.aquaamerica.com](http://www.aquaamerica.com). Our website is not part of this Proxy Statement. References to our website address in this Proxy Statement are intended to be inactive textual references only.

**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 2% 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.

For purposes of the categorical standards set forth above, (a) a person's immediate family includes a person's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, and brothers- and sisters-in-law and anyone (other than domestic employees) who shares such person's home, (b) the term executive officer has the same meaning specified for the term officer in Rule 16a-1(f) under the Exchange Act, and (c) the Company includes Aqua and its consolidated subsidiaries.

**Table of Contents**

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 for the current board of directors:

1. The Company made contributions to charitable or civic organizations for which the following directors serve as directors, trustees or executive officers: Mr. Glanton, Mr. Greenberg, and Mr. Hankowsky. None of the Company's contributions exceeded the greater of \$1 million or 2% of the recipient organization's consolidated gross revenues.
2. The Company provides water service at normal tariff rates to Liberty Property Trust or its affiliates, UGI Corporation or its affiliates, Exelon or its affiliates, provides water service to Dynegy or its affiliates pursuant to a contractually negotiated rate that is filed with the Pennsylvania Public Utility Commission, and provides water service to a company for which Mr. Holland is a member of the Board of Directors. Exelon Corporation or its affiliates provides electric service at tariff rates to the Company. Mr. Hankowsky serves as an executive officer of Liberty Property Trust, Mr. DeBenedictis serves as a member of the Board of Directors of Exelon Corporation, Mr. Greenberg serves as Chairman Emeritas of UGI Corporation and Ms. Burke is Senior Vice President at Dynegy. The amounts paid to the Company by these other entities and paid by the Company to Exelon are pursuant to tariff rates or a contract that is filed with the Pennsylvania Public Utility Commission and are not material to these other entities.
3. 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 Citizens Financial Group or its affiliates are not material to these entities or to the Company.
4. The Company has insurance arrangements with Independence Health Group or its affiliates, and Mr. DeBenedictis is a member of the Board of Directors of Independence Health Group. The amounts paid by the Company to Independence Health Group are not material to these entities or to the Company.

Based on a review applying the 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, other than Mr. Franklin, the Company's Chief Executive Officer, and Mr. DeBenedictis, the Company's former Chief Executive Officer, is independent.

**BOARD OF DIRECTORS LEADERSHIP STRUCTURE**

Mr. Franklin serves as Chief Executive Officer and Mr. DeBenedictis serves as the non-executive Chairman of the Board. The Board of Directors believes this structure provides continuity and efficiency for the Company and best

utilizes the skills and experience of Mr. Franklin and Mr. DeBenedictis.

Under this present structure, 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. Mr. Glanton is currently 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;

**Table of Contents**

Serving as liaison between the independent directors and the Chairman of the Board;

Consulting with the Chairman of the Board, reviewing and approving meeting agendas and information provided to the Board for meetings, including the authority to add items to the agendas for any such meeting;

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;

If requested by major shareholders, ensuring that he is available for consultation and direct communications;

Serving as a member of the Executive Committee;

In the event of the death or incapacity of the Chairman, becoming the acting Chairman of the Board until a new Chairman is selected; and

Having the authority (with the approval of at least the majority of the 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.

**AGE AND TERM LIMITS**

The Board believes that term limits are an important element of good governance. However, it also believes that it must strike the appropriate balance between the contribution of directors who have developed, over a period of time, meaningful insight into the Company and its operations, and therefore can provide an increasing contribution to the Board as a whole. Accordingly, in 2015 the Board established that upon the fifteenth anniversary of a director accepting an initial appointment or election to the Board of Directors, the director shall tender his or her resignation to the Board (the Term Limit Policy ). The Term Limit Policy does not apply to directors who were elected on or before December 1, 2015.

The Board also believes that our current policy of retirement for directors at age 72 is appropriate. All directors are required to submit their resignation from the Board effective as of their 72<sup>nd</sup> birthday.

**OVERSIGHT OF RISK MANAGEMENT**

The Board oversees management s risk management activities through a combination of processes:

Pursuant to its charter, the Risk Mitigation and Investment Policy Committee's primary purpose is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to the Company's risk management practices, the Company's compliance with legal and regulatory requirements, the Company's potential investments in acquisitions and growth vehicles, and to review and approve the Company's risk management framework.

At least quarterly, the Risk Mitigation and Investment Policy Committee reviews the results of the Company's enterprise risk management process and management presents to the Board a report on the status of the risks and the metrics used to monitor those risks. Each risk that is tracked as part of the enterprise risk management process has a member of the Company's management who serves as the owner and monitor for that risk. The risk owners and monitors report on the status of their respective risks at the quarterly meeting of management's Compliance Committee. The information discussed at

**Table of Contents**

the Compliance Committee meeting is then reviewed by the Disclosure Committee composed of the Company's Chief Executive Officer, Chief Financial Officer, General Counsel, Chief Accounting Officer and Director of Internal Audit. The results of the Disclosure Committee's meetings are presented to the Risk Mitigation and Investment Policy Committee or the Audit Committee each quarter, as appropriate.

The Audit Committee, in consultation with 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 Audit Committee meets in executive session with the Director of Internal Audit and with the independent registered public accountants at the end of each Audit Committee meeting. The Company's General Counsel reports to the Audit Committee quarterly regarding any significant litigation involving the Company and his opinion of the adequacy of the Company's reserves for such litigation. At least annually, 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.

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.

Management has developed a Company-wide Enterprise Risk Management process intended to identify, prioritize and monitor key risks that may affect the Company.

Management receives approval from the Risk Management and Investment Policy Committee on all potential acquisitions valued in excess of \$10 million, briefs the Board of Directors on acquisitions valued in excess of \$10 million, and the Board approves every acquisition valued in excess of \$25 million or which involves the issuance of the Company's common stock as part of the consideration.

In addition to updates at each Board meeting by operating management regarding any significant operational, acquisition, or environmental matters, management provides the Board with an annual update on environmental matters by the Company's Chief Environmental Officer in connection with presentation by the Company's Senior Vice President of Engineering on the Company's proposed capital spending plans and by its Senior Vice President, General Counsel, and Secretary in connection with the Company's Enterprise Risk Management program.

In administering the executive compensation program, the Executive Compensation Committee attempts to strike an appropriate balance among the elements of our compensation program to achieve the program's objectives. Each of the elements of the program is discussed in greater detail in this Proxy Statement. As a result of its review of the Company's overall compensation program in the context of the risks identified in the Company's enterprise risk management processes, the Executive Compensation Committee does not believe that the risks the Company faces are materially increased by the Company's compensation programs and, therefore, the Executive Compensation Committee believes that the compensation program does not create the reasonable likelihood of a material adverse effect on the Company.

The Board believes that the present leadership structure, along with the important risk oversight functions performed by management, the Audit Committee, the Risk Mitigation and Investment Policy Committee, the Executive Compensation Committee, and the full Board, permits the Board to effectively perform its role in the risk oversight of the Company.

## **Table of Contents**

### **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 website, [www.aquaamerica.com](http://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 website.

### **ANTI-HEDGING AND ANTI-PLEDGING POLICY**

We believe that issuance of incentive and compensatory equity awards to our named executive officers along with our stock ownership guidelines help to align the interests of such officers with our shareholders. As part of our insider trading policy, we prohibit any officers from engaging in hedging or pledging activities with respect to any owned shares or outstanding equity awards. None of our named executive officers pledged any shares of Company stock during 2016. None of our named executive officers engaged in any hedging activities with respect to the Company stock during 2016.

### **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 the annual amount involved exceeds \$120,000, but excludes certain types of transactions in which the related person is deemed not to have a material interest.

Under this policy, a related person means: (a) any person who is, or at any time since the beginning of the Company's last fiscal year was, a director, an executive officer or a director nominee; (b) any person known to be the beneficial owner of more than 5% of any class of the Company's voting securities; (c) any immediate family member of a person identified in items (a) or (b) above, meaning such person's spouse, parent, stepparent, child, stepchild, sibling, mother- or father-in-law, son- or daughter-in-law, brother- or sister-in-law or any other individual (other than a tenant or employee) who shares the person's household; or (d) any entity that employs any person identified in (a), (b) or (c) or in which any person identified in (a), (b) or (c) directly or indirectly owns or otherwise has a material interest.

The Corporate Governance Committee, with assistance from the Company's General Counsel, is responsible for reviewing, approving and ratifying any related person transaction. In its review and approval or ratification of related person transactions (including its determination as to whether the related person has a material interest in a transaction), the Corporate Governance Committee will consider, among other factors:

The nature of the related person's interest in the transaction;



The material terms of the transaction, including, without limitation the amount and type of transaction;

The importance of the transaction to the related person;

The importance of the transaction to the Company;

**Table of Contents**

Whether the transaction would impair the judgment of a director or executive officer to act in the best interests of the Company; and

Any other matters the Corporate Governance Committee deems appropriate.

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 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 except for the Audit Committee and Executive Compensation Committee, which must have at least three members. The Board of Directors annually elects from its members the Executive, Audit, Executive Compensation, Risk Mitigation and Investment Policy, and Corporate Governance Committees. The Board may also from time to time appoint ad hoc committees such as an Executive Search Committee to oversee the Company's succession planning activities. The Retirement and Employee Benefits Committee, which is comprised of senior management of the Company, reports periodically to the Board of Directors.

The Board of Directors held twenty two (22) meetings in 2016. 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 2016. The Board of Directors encourages all directors to attend the Company's Annual Meeting of Shareholders. All the directors were in attendance at the 2016 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 website, [www.aquaamerica.com](http://www.aquaamerica.com). The members of the standing Committees of the Board of Directors, as of December 31, 2016, were as follows:

Name	Risk Mitigation &				
	Executive Committee	Executive Compensation Committee	Audit Committee	Investment Policy Committee	Corporate Governance Committee
BURKE		X	X		
DEBENEDICTIS	Chair			X	
FRANKLIN				X	
GLANTON	X			Chair	
GREENBERG	X	Chair	X		
HANKOWSKY	X		Chair		X
HOLLAND				X	X
RUFF	X	X			Chair

**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 currently has five members, and the Chairman of the Board of Directors serves as Chairman of the Executive Committee. The Executive Committee did not meet in 2016.

## **Table of Contents**

### **AUDIT COMMITTEE**

The Audit Committee is composed of three directors, whom the Board of Directors has affirmatively determined meet the standards of independence required of audit committee members by the NYSE 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, currently, all members of the Audit Committee, are financially literate and two members of the audit committee are financial experts within the meaning of applicable SEC rules. 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 is required to meet at least four times during the year and met 10 times during 2016.

The Audit Committee has the exclusive authority to select, evaluate and, where appropriate, replace the Company's independent registered public accounting firm. The Audit Committee has considered the extent and scope of non-audit services provided to the Company by its independent registered public accounting firm and has determined that such services are compatible with the independent registered public accounting firm maintaining its independence.

### **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 and applicable SEC rules. 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. 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. The Executive Compensation Committee reviews and recommends to the Board of Directors the compensation for the Company's Chief Executive Officer, which is subject to final approval by the independent members of the Board of Directors. The Executive Compensation Committee has the power to delegate aspects of its work to subcommittees, with the approval of the Board of Directors. The Executive Compensation Committee met 10 times during 2016.

### **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. The Corporate Governance Committee advises the Board of Directors on director nominees, executive selections and succession, including ensuring that there is a succession plan for the Chief Executive Officer and such other senior executives as determined by the Corporate Governance Committee. In 2016, the Corporate Governance Committee initiated and oversaw the implementation of a comprehensive Board, Committee, and Peer review process. It 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 8 times during 2016.

### **RISK MITIGATION AND INVESTMENT POLICY COMMITTEE**

The Risk Mitigation and Investment Policy Committee is composed of four directors and the Company's Chief Financial Officer. The Risk Mitigation and Investment Policy Committee operate pursuant to a Board

**Table of Contents**

approved charter, which states its duties and responsibilities. The Committee oversees the Company's risk management process, policies, and procedures for identifying, managing and monitoring critical risks, including cyber related risks, and its compliance with legal and regulatory requirements. The Committee also oversees the Company's acquisition process in which it reviews all acquisitions valued in excess of \$10 million. The Committee communicates with other Board of Directors Committees to avoid overlap and potential gaps in overseeing the Company's risks. The Risk Mitigation and Investment Policy Committee advises the Board of Directors in its performance of its oversight of enterprise risk management. The Risk Mitigation and Investment Policy Committee met 9 times during 2016.

**Table of Contents****DIRECTOR COMPENSATION**

In December 2015, the Board of Directors approved a revised directors' compensation program effective January 1, 2016. Upon the recommendation of its Executive Compensation Committee, the Board of Directors approved the following directors' compensation for 2016 for the non-employee directors of the Company:

**DIRECTOR COMPENSATION**

<b>Role</b>	<b>Annual Cash Compensation</b>	<b>Annual Equity Compensation</b>
Each Independent Director	\$ 75,000	Stock grant equal to \$75,000 in value
Chair, Audit Committee	\$ 12,500	
Chair, Executive Compensation Committee	\$ 12,500	
Chair, Corporate Governance Committee	\$ 10,000	
Chair, Risk Mitigation Committee	\$ 10,000	
Lead Independent Director	\$ 25,000	
Non-Executive Chairman	\$ 175,000	

All directors are reimbursed for reasonable expenses incurred in connection with attendance at Board or Committee meetings.

As a component of this program, the Board of Directors approved share ownership guidelines for each director to own shares of Company common stock having a value equal to five times the annual base cash retainer for directors. Directors have up to three years from December 2015 or upon appointment, whichever is later, to attain this new guideline share ownership level. The following table sets forth the compensation paid to the Aqua America Board of Directors in 2016:

<b>DIRECTOR COMPENSATION</b>							
<b>Name</b>	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards</b>	<b>Option Awards</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings</b>	<b>All Other Compensation</b>	<b>Total</b>
	<b>(\$)</b>	<b>(\$)(2)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
BURKE	37,500	56,227					93,727
DEBENEDICTIS	196,250	74,975					271,225
FRANKLIN (1)							
GLANTON	116,250	74,975					191,225
GREENBERG	93,750	74,975					168,725

HANKOWSKY	95,250	74,975	170,225
HOLLAND	81,250	74,975	156,225
RUFF	87,583	74,975	162,558

- (1) As an officer of the Company, Mr. Franklin does not receive any fees for his service on the Board of Directors.
- (2) The grant date fair value of stock awards is based on their fair market value on the date of grant as determined under 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 Note 14, Employee Stock and Incentive Plan contained in the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. The grant date fair value of the stock awards, which are paid quarterly, were; March 30, 2016 \$31.94; June 30, 2016 \$35.245; September 30, 2016 \$30.765; and, December 31, 2016 - \$30.033.

***THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE ELECTION OF MS. BURKE, MR. DEBENEDICTIS, MR. FRANKLIN, MR. GLANTON, MR. GREENBERG, MR. HANKOWSKY, MR. HOLLAND, AND MS. RUFF AS DIRECTORS.***



**Table of Contents****PROPOSAL NO. 2****RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE COMPANY FOR THE 2017 FISCAL YEAR**

The Audit Committee of the Board of Directors appointed PricewaterhouseCoopers LLP ( PwC ) as the independent registered public accounting firm for the Company for the 2017 fiscal year. PwC has been the Company's independent registered public accountants since 2000. The Board of Directors recommends that the shareholders ratify the appointment.

Although shareholder ratification of the appointment of PwC is not required by law or the Company's Bylaws, the Board of Directors believes that it is desirable to give our shareholders the opportunity to ratify the appointment. If the shareholders do not ratify the appointment of PwC, the Audit Committee will take this into consideration and may or may not consider the appointment of another independent registered public accounting firm for the Company for future years. Even if the appointment of PwC is ratified, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm during the year if the Audit Committee determines such a change would be in the best interests of the Company. Representatives of PwC are expected to be present at the 2017 Annual Meeting of Shareholders, will have the opportunity to make a statement at the meeting if they desire to do so, and will be available to respond to appropriate questions.

PwC has informed us that they are not aware of any independence-related relationships between their firm and the Company other than the professional services discussed in *Services and Fees* below. Under the Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ), the Audit Committee is responsible for the appointment, compensation and oversight of the work of the independent registered public accounting firm. As a result, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accounting firm in order to assure that such services do not impair the auditor's independence from the Company. The Audit Committee has established a procedure to pre-approve all auditing and non-auditing fees proposed to be provided by the Company's independent registered public accounting firm prior to engaging the accountants for that purpose. Consideration and approval of such services occurs at the Audit Committee's regularly scheduled meetings, or by unanimous consent of all the Audit Committee members between meetings. All fees and services were pre-approved by the Audit Committee for the 2016 fiscal year.

***Services and Fees***

The following table presents the fees paid to PwC for professional services rendered with respect to the 2016 fiscal year and 2015 fiscal year:

	<b>FISCAL YEAR</b>	
	<b>2016</b>	<b>2015</b>

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Audit Fees (1)	\$ 1,434,340	\$ 1,370,000
Audit-Related Fees		
Tax Fees (2)	\$ 32,500	\$ 31,617
All Other Fees (3)	\$ 5,411	\$ 3,980
Total	\$ 1,472,251	\$ 1,405,597

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

**Table of Contents**

**REPORT OF THE AUDIT COMMITTEE**

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

The Audit Committee reviewed with the independent registered public accounting firm, which is responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles in the United States of America, their judgments as to the quality of the Company's accounting principles and such other matters as required to be discussed by the Auditing Standard No. 1301, Communications with Audit Committees as adopted by the Public Company Accounting Oversight Board. In addition, the Audit Committee has discussed with the independent registered public accounting firm the firm's independence from management and the Company, including the matters in the written disclosures required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and considered the compatibility of non-audit services with the accountants' independence.

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

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for filing with the SEC.

Respectfully submitted,

William P. Hankowsky, Chairman

Lon R. Greenberg

Carolyn J. Burke

The foregoing Audit Committee report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

***THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE 2017 FISCAL YEAR.***

Table of Contents

**PROPOSAL NO. 3**

**ADVISORY VOTE ON THE COMPENSATION PAID TO THE COMPANY'S  
NAMED EXECUTIVE OFFICERS FOR 2016**

Under Section 14A of the Exchange Act, shareholders are entitled to an advisory (non-binding) vote on the executive compensation as described in this Proxy Statement for our named executive officers (sometimes referred to as "Say on Pay"). Currently, this vote is conducted every year. Accordingly, the following resolution is being presented by the Board of Directors at the 2017 Annual Meeting:

*RESOLVED, that the compensation paid to the Company's named executive officers for 2016, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.*

This vote is non-binding. The Board of Directors and the Executive Compensation Committee, which is comprised of independent directors, expect to take into account the outcome of the vote when considering future executive compensation decisions to the extent they can determine the cause or causes of any significant negative voting results.

As described in detail under our Compensation Discussion and Analysis on pages 28 through 49 of this Proxy Statement, our executive compensation program is designed to motivate our executives to achieve our primary 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. We believe that our executive compensation program, with its balance of short-term incentives and long-term incentives and share ownership guidelines, reward sustained performance that is aligned with the interests of our customers, employees and long-term shareholders. Shareholders are encouraged to read the Compensation Discussion and Analysis, the accompanying compensation tables and the related narrative disclosure.

***THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION PAID TO OUR NAMED EXECUTIVE OFFICERS FOR 2016 AS DISCLOSED IN THE COMPENSATION DISCUSSION AND ANALYSIS, THE ACCOMPANYING COMPENSATION TABLES AND THE RELATED NARRATIVE DISCLOSURE IN THIS PROXY STATEMENT.***



**Table of Contents**

**EXECUTIVE COMPENSATION**

**TABLE OF CONTENTS**

<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	28
<u>INTRODUCTION</u>	28
<u>EXECUTIVE SUMMARY</u>	28
<u>OBJECTIVES OF OUR COMPENSATION PROGRAM</u>	29
<u>ALIGN INTERESTS OF NAMED EXECUTIVE OFFICERS AND SHAREHOLDERS</u>	29
<u>COMPONENTS OF 2016 COMPENSATION PROGRAM</u>	32
<u>LINK BETWEEN OPERATING PERFORMANCE AND EXECUTIVE COMPENSATION</u>	33
<u>BENCHMARKING COMPETITIVE COMPENSATION AND THE ROLE OF THE COMPENSATION COMMITTEE'S CONSULTANT</u>	34
<u>OTHER CONSIDERATIONS</u>	36
<u>DETERMINATION OF ACTUAL COMPENSATION</u>	36
<u>BASE SALARY</u>	36
<u>SHORT-TERM INCENTIVE AWARDS</u>	36
<u>LONG-TERM EQUITY INCENTIVE AWARDS</u>	42
<u>RETIREMENT PLANS</u>	46
<u>NON-QUALIFIED DEFERRED COMPENSATION PLAN</u>	46
<u>SEVERANCE PLANS</u>	47
<u>CHANGE-IN-CONTROL AGREEMENTS</u>	47
<u>THE ROLE OF MANAGEMENT IN THE EXECUTIVE COMPENSATION PROCESS</u>	48
<u>THE IMPACT OF TAX CONSIDERATIONS ON EXECUTIVE COMPENSATION DECISIONS</u>	48
<u>STOCK OWNERSHIP GUIDELINES/ANTI-HEDGING AND ANTI-PLEDGING POLICY</u>	48
<u>CLAWBACK OF INCENTIVE COMPENSATION</u>	49
<u>2016 EXECUTIVE COMPENSATION</u>	50
<u>SUMMARY COMPENSATION TABLE</u>	50
<u>GRANTS OF PLAN-BASED AWARDS</u>	51
<u>OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END</u>	53
<u>OPTIONS EXERCISED AND STOCK VESTED</u>	54
<u>RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS</u>	55
<u>PENSION BENEFITS</u>	55
<u>RETIREMENT INCOME PLAN FOR AQUA AMERICA, INC. AND SUBSIDIARIES (THE RETIREMENT PLAN )</u>	55
<u>NON-QUALIFIED RETIREMENT PLAN</u>	56
<u>ACTUARIAL ASSUMPTIONS USED TO DETERMINE VALUES IN THE PENSION BENEFITS TABLE</u>	57
<u>NON-QUALIFIED DEFERRED COMPENSATION</u>	58
<u>POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL</u>	59
<u>CHANGE-IN-CONTROL</u>	59
<u>RETIREMENT AND OTHER BENEFITS</u>	60
<u>TERMINATION</u>	62
<u>RETIREMENT</u>	62
<u>DEATH</u>	62
<u>DISABILITY</u>	62
<u>TERMINATION EVENTS COMPENSATION</u>	63

REPORT OF THE EXECUTIVE COMPENSATION COMMITTEE

66

27



**Table of Contents**

**COMPENSATION DISCUSSION AND ANALYSIS**

**INTRODUCTION**

In this Compensation Discussion and Analysis ( CD&A ), we address our compensation philosophy and program, and compensation paid to or earned by the following named executive officers:

Christopher H. Franklin, President and Chief Executive Officer;

David P. Smeltzer, Executive Vice President and Chief Financial Officer;

Richard S. Fox, Executive Vice President and Chief Operating Officer;

Daniel J. Schuller, Executive Vice President and Chief Strategy & Corporate Development Officer; and

Christopher P. Luning, Senior Vice President, General Counsel, and Secretary.

We refer to these executive officers as our named executive officers or NEOs . As used in this CD&A, 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. The purpose of the CD&A is to explain: the elements of compensation; why our Executive Compensation Committee (the Compensation Committee ) selects these elements; and how the Compensation Committee determines the relative size of each element of compensation.

Compensation decisions for Messrs. Smeltzer, Schuller, Fox, and Luning were made by the Compensation Committee. Compensation decisions for Mr. Franklin were made by the independent members of our Board of Directors after receiving the approval and recommendation of the Compensation Committee.

Based on input from Pay Governance LLC ( Pay Governance or the consultant ), the independent compensation consultant retained by the Compensation Committee, we believe that the types of compensation vehicles we use and the relative proportion of the named executive officers total direct compensation represented by these vehicles is consistent with current competitive compensation practices in our industry. We believe our program s performance measures align the interests of our stakeholders and our named executive officers by correlating pay to our short-term and long-term performance. We measure the competitiveness of our program for our named executive officers against the median compensation for comparable positions at other companies in our benchmark group composed of other investor-owned utilities. Since compensation levels often vary based on the Company s revenues, we adjust the Company s revenues in the manner described below to align with the companies in the benchmark group. We then size adjust the market data using revenue-based regression analysis to determine the market rates for our named executive officer positions. Our goal is to provide total direct compensation that is competitive with the market rates for each named executive officer. Based on the information supplied by the consultant, the total target direct compensation for each of our named executive officers was at or below the median of the benchmark market data for each of their positions during 2016.

**EXECUTIVE SUMMARY**

Our 2016 performance demonstrates continued execution of our strategic goals and plans. During 2016, by effectively managing costs, strategically growing when it was prudent, maintaining strong regulatory relationships, and focusing on our customers, employees and shareholders as we continue to create value for all of our stakeholders, we had the following results:

Revenues increased to \$819.9 million from \$814.2 million in 2015;

Earnings per share increased to \$1.32, an increase of 4.8% over the 2015 adjusted income per share (Non-GAAP financial measure) of \$1.26 per share or \$223.2 million;\*

**Table of Contents**

The Board of Directors approved a 7.5% increase in the quarterly dividend;

The company's annualized dividend rate is now \$0.7652 per share, compared to \$0.712 at the same time in 2015;

We invested a record of \$383.0 million to improve our distribution network and enhance water quality and reliability for our customers;

We added more than 6,500 customer connections through 19 regulated water and wastewater acquisitions, including 4 municipal deals;

We increased our total customer connection count by 1.6%, which includes additional customers from organic and acquisition growth;

We completed 7 rate cases along with ongoing surcharges, expected to increase annualized revenues by \$5.6 million;

We lowered our weighted average cost of fixed rate, long-term debt to 4.26%; and,

We divested a majority of our non-scalable, non-strategic market based activities.

*\*See Appendix B for a reconciliation of non-GAAP financial measures to GAAP financial measures.*

**OBJECTIVES OF OUR COMPENSATION PROGRAM**

Our compensation program for named executive officers is designed to:

Provide a competitive level of total compensation;

Motivate and encourage our named executive officers to contribute to our financial success;

Retain talented and experienced named executive officers; and

Reward our named executive officers for leadership excellence and performance that implements our strategic goals and promotes sustainable growth in shareholder value.

**ALIGN INTERESTS OF NAMED EXECUTIVE OFFICERS AND SHAREHOLDERS**

We supplement our pay-for-performance program with a number of compensation policies intended to align the interests of management and our shareholders. The following are several key features of our executive compensation program:

**AT AQUA AMERICA, WE DO:**

Tie a high ratio of our executives' pay to corporate and individual performance

Require significant stock ownership

Tie incentive compensation to a clawback policy

Comply with our equity award policy

Use an independent compensation consultant

**AT AQUA AMERICA, WE DO NOT:**

× Provide golden parachute tax gross ups

× Permit pledging or hedging of Company securities

× Provide a single trigger severance upon a change of control

× Provide employment agreements to a broad group

× Encourage excessive or inappropriate risk taking through our compensation programs

**Table of Contents**

Our executive compensation program is designed to balance a number of objectives, as detailed in this CD&A. The following is a summary of the material elements of the compensation practices and policies that are part of our executive compensation program:

A substantial portion of our named executive officers' total direct compensation is performance-based;

A majority of the long-term equity incentives for our named executive officers is performance-based;

All of the Chief Executive Officer's long-term equity incentives are performance-based;

The Company uses multiple goals and metrics in its short-term and long-term incentive awards to assess performance in its long-term equity incentives;

The Company has an incentive compensation clawback policy for awards paid under its annual cash incentive plan, and long-term equity incentive grants are subject to the applicable clawback policies implemented by the Board of Directors from time to time;

There are stock ownership guidelines for each named executive officer;

The Company does not provide any tax gross-ups in any change-in-control agreements;

The Company has an anti-hedging and anti-pledging policy;

The Company's change-in-control agreements are double trigger, in that the named executive officer receives severance only if a change-in-control occurs and his employment is terminated within a designated period; and

The annual equity awards are double trigger, requiring termination of employment following a change-in-control for acceleration of payment prior to the normal payment date.

The table below shows the portion of each named executive officer's 2016 total direct compensation that is considered performance-based (i.e., annual cash incentives and performance-based equity incentives).

<b>Name</b>	<b>2016 Salary</b>	<b>2016 Cash Incentive Earned in 2016</b>	<b>2016 Performance Share Units</b>	<b>2016 Restricted Share Units</b>	<b>Total Percentage Performance-based Compensation</b>
-------------	--------------------	---	-------------------------------------	------------------------------------	--

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

FRANKLIN	24%	31%	29%	16%	76%
SMELTZER	37%	26%	24%	13%	50%
FOX	37%	27%	23%	13%	50%
SCHULLER	31%	24%	32%	13%	56%
LUNING	39%	23%	24%	14%	47%

**Table of Contents**

With respect to the named executive officer's total direct compensation, at least 76% of the Chief Executive Officer's compensation is performance and/or stock-based and at least 64% of the average of the other named executive officer's compensation is performance and/or stock-based:

**CEO**  
**76% - Performance and/or Stock-Based Compensation**

**OTHER NEOs**  
**64% - Performance and/or Stock-Based Compensation**

LONG-TERM INCENTIVES (LTI)

Restricted Share Units (RSUs)  
Performance Share Units (PSUs)

ANNUAL COMPENSATION

Base Salary  
Short-Term Incentives (Cash)

**Table of Contents**

**COMPONENTS OF 2016 COMPENSATION PROGRAM**

Our executive compensation program is composed of the following seven 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 50 and the Grants of Plan-Based Awards Table on page 51);

Long-Term Equity Incentive Awards;

Retirement Benefits;

Non-Qualified Deferred Compensation Plans;

Change-in-Control Agreements; and

Stock Ownership Guidelines.

The following chart provides a brief summary of the principal elements of our executive compensation program for 2016. We describe these elements, as well as retirement, severance and other benefits, in more detail in this CD&A.

**COMPONENTS OF COMPENSATION PAID TO NAMED EXECUTIVE OFFICERS IN 2016**

<b>Compensation Element</b>	<b>Form</b>	<b>Compensation Objective</b>	<b>Relation to Objective</b>
<b>Base Salary</b>	Fixed annual cash paid bi-weekly	Compensate executives for their level of responsibility and sustained individual performance based on market data.	Merit salary increases are based on subjective performance evaluations.
<b>Annual Cash Incentive</b>			



<b>Awards</b>	Variable cash paid on an annual basis based on achievement of pre-established goals	Motivate executives to focus on achievement of our annual business objectives.	The amount of the annual incentive award, if any, is entirely dependent on achievement of pre-established Company and personal goals.
<b>Long-Term Equity Incentive Awards</b>	Restricted Share Units	Align executive interests with shareholder interests; retain key executives.	Provide equity that will have same value as shares owned by shareholders; subject to stock ownership guidelines.
	Performance Share Units	Align executive interests with shareholder interests; create a strong financial incentive for achieving or exceeding long-term performance goals.	The named executive officers receive equity only if the pre-established performance goals are achieved.

**Table of Contents**

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

<b>Element of Compensation</b>	<b>Objectives</b>
Competitively benchmarked base salaries	Designed to attract and retain named executive officers consistent with their talent and experience; market-based salary increases are designed to recognize the executives' performance of their duties and responsibilities; and promotions and related salary increases are designed to encourage executives to assume increased job duties and responsibilities
Short-term incentives or annual cash incentive awards	Intended to reward executives for (1) improving the quality of service to our customers, (2) controlling the cost of service to our customers by managing expenses and improving performance, (3) achieving economies of scale by the acquisition of additional water and wastewater systems that can benefit from our resources and expertise, (4) disposing of under-performing systems where appropriate, and (5) enhancing our financial viability and performance by the achievement of annual objectives
Equity incentives	Designed to reward named executive officers for (1) enhancing our financial health, which also benefits our customers, (2) improving our long-term performance through both revenue increases and cost control, and (3) achieving increases in the Company's equity and in absolute shareholder value and shareholder value relative to peer companies, as well as helping to retain executives due to the longer term nature of these incentives
Retirement benefits	Intended to assist named executive officers to provide income for their retirement
Non-qualified deferred compensation plan	Designed to allow eligible executives to manage their financial and tax planning and defer current income until a later date, including following retirement or other separation from employment without an additional contribution from the Company
Change-in-control agreements	Designed to promote stability and dedication to shareholder value in the event of a fundamental transaction affecting the ownership of the Company and to enable the named executive officers to evaluate such a transaction impartially
Stock ownership guidelines	Designed to focus named executive officers on the long-term performance of the Company and align the interests of our executives with our shareholders by encouraging named executive officers to maintain a significant ownership interest in the Company

**LINK BETWEEN OPERATING PERFORMANCE AND EXECUTIVE COMPENSATION**

Our stock performance in 2016 reflected our success and contributed significantly to our total shareholder return for the year. The chart below summarizes our stock performance over the past five years compared to the S&P 500 Index and the S&P MidCap 400 Utilities Index.



**Table of Contents**

We have been steadfast in delivering sustainable dividend growth. We increased our dividend 7.5 percent in 2016 and as a result, our annualized dividend rate is \$0.7652 per share. Our dividend policy is premised on continuing to grow our dividend in a prudent manner. We anticipate this growth will allow our dividend to continue to be a meaningful element of our overall shareholder return proposition. The chart below summarizes our dividend growth over recent years:

**BENCHMARKING COMPETITIVE COMPENSATION AND THE ROLE OF THE COMPENSATION COMMITTEE'S CONSULTANT**

The Compensation Committee has retained Pay Governance, a nationally-recognized compensation consulting firm, as the Compensation Committee's consultant to assist it in designing and assessing the competitiveness of our executive compensation program. Annually, the Compensation Committee has the consultant develop a market rate 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 median compensation level that would be paid to a hypothetical, seasoned performer in a position having similar responsibilities and scope, in an organization of similar size and type as the Company.

In developing the market rates for the named executive officers, the Compensation Committee's consultant, Pay Governance, used compensation data from all 61 investor-owned utilities in the utility industry database used by the consultant and approved by the Compensation Committee to determine the market rates for similarly situated executives of utility companies. The Compensation Committee believes that utilizing the data from only utility companies and adjusting the Company's revenues as described below, to better align the Company's data with the data in the utility industry compensation database, provides an appropriate comparison for determining the market rates for the Company's named executive officers given that we are primarily a utility company. Also, due to the relatively limited number of investor-owned water utility companies of the Company's size, the Compensation Committee believes that using the broader utility market data provides reasonable and reliable data for determining competitive compensation levels. All 61 companies in the utility industry compensation database used by the consultant are listed in Appendix A to this Proxy Statement. The Company has no involvement in the selection of the companies that are included in the database used by the consultant. Each company in Appendix A was used in the development of the market rates, as described in this paragraph.

Management, the Compensation Committee, and Pay Governance are mindful that compensation levels for executives of companies are often correlated with a company's size as defined by revenues. In other words, executives in companies with higher revenues are generally paid more than executives with comparable positions

---

**Table of Contents**

in companies with lower revenues. The Compensation Committee and Pay Governance have concluded that the Company's revenues under-represent the complexity and scope of the Company's business given the Company's low cost of goods sold relative to energy-based utilities. The cost of goods sold as a percentage of revenues is significant for energy-based utilities due to their fuel, gas and other power costs. These commodity costs are subsequently recovered through the revenues of the energy-based utilities as they are ultimately passed through to the customer. The Company, like other water utilities, does not have comparable commodity costs. The purpose of the adjusted revenue analysis is to create a consistent comparison to the compensation data in the utility compensation database used by Pay Governance by estimating the revenue that the Company would earn if its cost of goods sold was in similar proportion to that of the energy-based utilities that constitute the majority of the companies in the database. In order to determine a factor by which to adjust the Company's annual revenues, the Compensation Committee recommended that the consultant analyze the income statements of a sample of delivery- focused (i.e., non-power generating) utilities, chosen by the consultant with no input from the Compensation Committee or management, to develop a typical cost of goods sold factor attributable to commodity costs.

Pay Governance's analysis for 2016 determined that the commodity portion of the cost of goods sold averaged 45% of revenues for these companies and calculated what the Company's adjusted revenues would be using this factor. Since there are certain complexities associated with procuring these commodities at the energy-based utilities, the consultant recommended, and the Compensation Committee agreed, that it would be appropriate to discount the market rates generated by the adjusted revenue methodology. Thus, it was agreed that the Company would use an average of the market data produced using the Company's adjusted revenue scope with market data generated using the Company's actual revenue scope in determining the market rates for the Company's named executive officers.

Because the companies listed in Appendix A vary widely in terms of revenues, Pay Governance used regression analysis to size-adjust the benchmark data for each named executive officer's revenue responsibility using the Company's actual and adjusted revenues, where possible, and then averaging the results to determine market rates for base salary, total cash compensation and total direct compensation for each named executive officer. Tabular data was used where regression data was unavailable due to insufficient correlation between officer positions in the Company and the companies in the database and/or limited sample size to ensure the accuracy of the regression analysis. Regression analysis is an objective calculation that identifies a relationship between one variable (in this case, compensation) and another variable that is correlated to it (in this case, total company revenues). Therefore, in developing the market rates for base salary, total cash compensation, and total direct compensation, Pay Governance used regression analysis to determine what the companies in Appendix A would pay at the median for positions comparable to those of the Company's named executive officers. The Compensation Committee considers target total direct compensation levels that are within a range of 15% of the market median 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. 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 Compensation Committee makes grants of equity incentives based on their grant date value and the applicable competitive benchmarks for each named executive officer's position.

Pay Governance reviews the Company's executive compensation program for the Compensation Committee and annually provides the data and analysis described above. The compensation consultant discusses the proposed actual compensation awards for the named executive officers and provides research and input to the Compensation Committee on changes to the compensation program.

In 2016, Pay Governance also analyzed the Company's executive compensation program to ensure that it remained competitive in the market place to show the market rate for base salary, total cash compensation and



## **Table of Contents**

total direct compensation, including the allocation between cash compensation and equity incentives. Pay Governance provides no other services to the Company other than serving as the Compensation Committee's compensation consultant.

The Compensation Committee has concluded that Pay Governance is an independent consultant after considering the factors relevant to Pay Governance's independence from management, including the factors set forth in the NYSE and SEC rules regarding compensation consultant independence.

## **OTHER CONSIDERATIONS**

The Compensation Committee also takes into consideration the results of the advisory votes on the Company's executive compensation program for the few years prior to the year for which the executive compensation decisions are being made. For the years 2014, 2015, and 2016, the shareholders approved the advisory vote on the compensation of our named executive officers by 93% to 94% of the votes cast.

## **DETERMINATION OF ACTUAL COMPENSATION**

The Compensation Committee determines the actual amount of each element of annual compensation to award to the Company's named executive officers with the goal of having the target total direct compensation opportunity for each named executive officer generally within a range of 15% above or below the market median rate for his position over time. We emphasize pay for performance, especially for our higher-level executives.

Therefore, the named executive officers tend to receive a substantial portion of their total annual compensation from annual cash incentives and long-term equity incentives. In addition, the percentages of total direct compensation represented by base salary, annual cash incentive opportunities, and equity incentives, respectively, for the named executive officers are generally 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, other than the Chief Executive Officer whose salary is determined by the Board of Directors using the same criteria, are determined by the Compensation Committee by considering both the market median rate for the position and internal equity with both the other named executive officers and other employees of the Company. The Compensation Committee's goal is to maintain base salaries generally within a range of 15% above or below the market median rate over time for each of the named executive officers, although deviations from this goal may occur due to promotions, 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 2016, the annual increases to the salaries for the named executive officers reflected these assessments and averaged 4%.

## **SHORT-TERM INCENTIVE AWARDS**

### **THE 2016 ANNUAL CASH INCENTIVE AWARDS**

Annual cash incentive awards under the Annual Cash Incentive Compensation Plan (the "Annual Plan") were intended to motivate management to focus on the achievement of annual corporate and individual objectives that would, among

other things, improve the level of service to our customers, control the cost of



**Table of Contents**

service, and enhance our financial performance. The annual cash incentive portion of total direct compensation for 2016 was based on a target incentive award for each named executive officer, stated as a percentage of his base salary. The Compensation Committee selected a target annual incentive percentage for each named executive officer 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 in a range of 15% above or below the total direct compensation for the market median rate for that position. The target annual incentive percentage for 2016 as a percentage of base salary for each of the named executive officers was: Christopher H. Franklin 85%; David P. Smeltzer 55%; Richard S. Fox 55%; Daniel J. Schuller 55%; and Christopher P. Luning 45%.

Actual annual cash 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 **Company Factor** for the named executive officers is a percentage based on the performance of the Company against an annual financial target. The **Individual Factor** is a percentage based on the named executive officer's performance against individual objectives established separately each year for each named executive officer.

The **Company Factor** ranges from 35% of target (if 75% of the annual financial performance target is achieved), to 125% of target (if 110% or more of the annual financial target is achieved). The **Company Factor** will be 0% if the Company does not achieve at least 75% of the annual financial performance target. The scale for determining the **Company Factor** is as follows:

	<b>Percent of Target</b>	<b>Company Factor</b>
Threshold	<75%	0%
	75	35
	80	40
	85	45
	90	60
	95	80
	100	100
	105	110
Maximum	>110	125

We believe 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 2014 through 2016, the achievement of the **Company Factors** for the named executive officers ranged from 104% to 113%.

The financial performance target established as the **Company Factor** for 2016 for the named executive officers was the Company's budgeted annual net income. Net income is utilized as the performance metric because it is a key performance metric for management, which is impacted by management's efforts to control costs for the benefit of the Company's customers, and growth in net income forms the basis for enhancing shareholder value. Adjustments may be made to the actual net income results to reflect the impact of changes in reporting / classification not impacting economic substance but inadvertently impacting the comparison to target, changes in accounting related to the adoption of new accounting standards, acquisition pursuit costs, and other factors as designated by the Compensation Committee and the Board of Directors.



**Table of Contents**

For purposes of determining the Company Factor for 2016, the range of 75% to 110% of Aqua America's net income was \$173,160 million to \$253,968 million. For 2016, the 100% Company Factor amount was \$230,880 million and the resulting Company Factor for each named executive officer for purposes of calculating the annual cash incentive award earned for 2016, and paid in 2017, was 105%, as adjusted based upon the Compensation Committee's approved adjustment criteria. The 2016 100% Company Factor amount represents the amount of net income required for the named executive officers to achieve a resulting Company Factor of 100%.

The Individual Factor ranges from 0% to 150% and is determined based on the individual named executive officer's performance against separate objectives established each year for each executive, along with discretionary points based on the individual's performance. Each named executive officer has approximately 10 individual objectives each year. The Compensation Committee and Board of Directors approve the objectives for the Chief Executive Officer, and the Chief Executive Officer approves the objectives and point weighting for each objective for the other named executive officers. The other named executive officers must achieve objectives with a point rating of at least 70 points to be eligible to receive an annual cash incentive award and the maximum points that an executive can achieve based on the executive's performance against his objectives is 110 points. 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 overall assessment by the Compensation Committee and the Board of Directors of his achievements with respect to his objectives with a maximum 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.

**Table of Contents**

The individual annual objectives established for the named executive officers 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, employee safety, cost control, performance improvement, compliance and revenue improvement. The Compensation Committee considers the named executive officers' annual objectives to be achievable, but challenging. The individual objectives for the named executive officers in 2016 focused on the following areas:

<b>Individual Objectives</b>	
<b>FRANKLIN</b>	<b>SMELTZER</b>
Organizational development	Strategic tax initiatives
Strategic planning/customer growth	Operating cost control
Operational excellence	Initiate improvements in key administrative functions
Customer service enhancements	Customer growth initiatives
Financial achievements	Sarbanes-Oxley Act compliance
Risk mitigation	
<b>Fox</b>	<b>SCHULLER</b>
Operational efficiencies	Corporate strategy
Organizational change management	Growth frameworks and investment processes
Operating cost control	Customer growth initiatives
Employee safety	Transaction management and cost control
Labor negotiations	Transaction financing
Environmental compliance	Operating cost control
Customer satisfaction	Market-based businesses evaluation and growth
Customer and revenue growth	
Water quality	
<b>LUNING</b>	
Customer growth initiatives	
Strategic planning	
Risk mitigation and management	
Regulatory compliance	
Operating cost control	
Litigation and claims management	
Insurance management	

For 2016, the Compensation Committee determined that the Individual Factors achieved by the named executive officers based on their performance against their objectives and discretionary points ranged from 100% to 150%. The Individual Factors for the named executive officers for 2016 were: Christopher H. Franklin 145%; David P. Smeltzer 122%; Daniel J. Schuller 130%; Richard S. Fox 125%; and, Christopher P. Luning 120%.

Actual annual cash incentive awards under the Annual Plan paid to the named executive officers are determined based on the applicable Company Factor, certified by the Company's Chief Financial Officer, Director of Internal Audit, and by the Compensation Committee and each named executive officer's Individual Factor. For the Chief Executive Officer, the Board of Directors reviews and approves his Individual Factor based on the Compensation Committee's assessment of the Chief Executive Officer's performance against his objectives. For the other named executive officers, the Compensation 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 the Company's financial performance, the Compensation Committee retains the authority

**Table of Contents**

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 did not exercise its discretion to reduce a cash incentive award to a named executive officer that was otherwise earned under the Annual Plan.

Based on the above-described factors, the following table shows the target annual cash incentive awards and the actual annual cash incentive awards approved by the Compensation Committee for 2016 for the named executive officers. The target annual cash incentive award is calculated assuming a 100% Company Factor and a 100% Individual Factor for each of the named executive officers, except the Chief Executive Officer, for whom the target assumes a 150% Individual Factor based on how the Compensation Committee assesses his overall performance as described above.

Name	2016 Target	2016 Target	2016 Actual
	Bonus %	Award	Cash Incentive
FRANKLIN	85%	\$ 566,738	\$ 862,858
SMELTZER	55%	\$ 214,830	\$ 275,197
FOX	55%	\$ 187,374	\$ 245,928
SCHULLER	55%	\$ 196,350	\$ 268,018
LUNING	45%	\$ 143,100	\$ 180,306

**CHANGES TO THE ANNUAL CASH INCENTIVE AWARD DESIGN FOR 2017**

During 2016, the Compensation Committee, its consultant Pay Governance, and management determined that it was appropriate to revise the design of the annual cash incentive portion of the total direct compensation paid to the named executive officers to place more emphasis on financial, safety, and compliance performance metrics and to reduce the weight allocated to individual goals. The Compensation Committee believes that these changes will focus the named executive officers' efforts on business metrics that are core to the Company's mission and reward the named executive officers' performance in achieving these metrics. The changes in 2017 are applicable to all of the named executive officers and align the Company's goals with payouts dependent upon achievement of certain performance objectives over a one year period. The tables and the narrative below detail the 2017 Annual Cash Incentive Award Metrics.

2017 Annual Cash Incentive Award Metrics					
Metric Weight	Metric	Metric Components & Weights	Target Achievement		
			50%	100%	150%
60%	Financial	Earnings Per Share	\$ 1.31	\$ 1.36	\$ 1.41
15%	Safety	36% - Lost Time Incidents			
		36% - Responsible Vehicle Accident Rate			
		14% - Safety Training Hours 14% - Incident Reporting	8 Points	14 Points	21 Points
15%	Compliance	50% - Drinking Water	99.00%	99.50%	99.80%
		50% - Wastewater	90.00%	93.00%	95.00%

10%	Individual Goals	50%	100%	150%
-----	------------------	-----	------	------

**Table of Contents****Financial 60%**

The financial metric is based on the Company's earnings per share (EPS).

The target achievement of the EPS goal is as follows:

	<b>Target</b>	
<b>EPS</b>		<b>Payout</b>
\$1.41		150%
\$1.40		140%
\$1.39		130%
\$1.38		120%
\$1.37		110%
\$1.36		100%
\$1.35		90%
\$1.34		80%
\$1.33		70%
\$1.32		60%
\$1.31		50%

**Safety 15%**

The safety metric will be achieved through the accumulation of points focused on specific safety components including Lost Time Incidents, Safety Training Hours, Incident Reporting, and Responsible Vehicle Accident Rate. The table below illustrates the weighting and performance range of each safety goal and a corresponding point score.

<b>Safety</b>	<b>Individual</b>			
<b>Component</b>	<b>Weight</b>	<b>Threshold (50%)</b>	<b>Target (100%)</b>	<b>Stretch (150%)</b>
Lost Time Incidents	36%	£ 25 Cases (3 Points)	£ 22 Cases (5 Points)	£ 19 Cases (7 Points)
Responsible Vehicle Accident Rates	36%	4.5 (3 Points)	4.1 (5 Points)	3.7 (7 Points)
Safety Training Hours	14%	87% (1 Point)	93% (2 Points)	97% (3 Points)
Incident Reporting	14%	70% (1 Point)	80% (2 Points)	90% (4 Points)
<b>Safety Metric Goal Target</b>	<b>100%</b>	<b>8 Points</b>	<b>14 Points</b>	<b>21 Points</b>





**Table of Contents****Compliance 15%**

The compliance metric has two components – drinking water and waste water. Similar to the safety metric, the compliance metric will also have a performance range of 50% to 150%. The tables below detail the components of the compliance metric.

**Drinking Water Compliance Component**

<b>Compliance Percentage</b>	<b>Number of Compliance Days /</b>	<b>Performance Range</b>
	<b>System / Year</b>	
99.00%	3.7	50
99.10%	3.3	60
99.20%	2.9	70
99.30%	2.6	80
99.40%	2.2	90
Target - 99.50%	1.8	100
99.58%	1.6	113
99.65%	1.3	125
99.73%	1.0	138
99.80%	0.7	150

**Wastewater Compliance Component**

<b>Compliance Percentage</b>	<b>Number of Compliance Days /</b>	<b>Performance Range</b>
	<b>System / Year</b>	
90.00%	36.5	50
91.00%	32.9	60
91.50%	31.0	70
92.00%	29.2	80
92.50%	27.4	90
Target - 93.00%	25.6	100
93.50%	23.7	113
94.00%	21.9	125
94.50%	20.1	138
95.0%	18.3	150

**Individual Goals 10%**

Two individual goals are identified for each named executive officer that align with the broader Company goals. Each named executive officer will be rated on the achievement of each goal receiving a 50%, 100%, or 150% completion rate.

**LONG-TERM EQUITY INCENTIVE AWARDS**

Our use of equity incentive awards are intended to reward our named executive officers for: (1) enhancing the Company's financial health, which also benefits our customers; (2) improving our long-term performance through both revenue increases and cost control; and (3) achieving increases in the Company's equity and shareholder value, as well

as helping to retain such executives due to the longer-term nature of these awards. We make these equity incentive awards under our 2009 Omnibus Equity Compensation Plan, as amended (the Plan ). Under the Plan, the Compensation Committee and the Board of Directors may grant stock options, dividend equivalents, performance-based or service-based stock units and stock awards, stock appreciation rights

## **Table of Contents**

and other stock-based awards to officers, directors, key employees and key consultants of the Company 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 named executive officers, the Compensation Committee annually reviews our equity incentive compensation program. Starting in 2011, the Compensation Committee began using a combination of performance share units and restricted share units to better link the named executive officer's long-term incentive compensation to performance results that led to increased shareholder value and enhanced our long-term financial stability, which also benefits our customers.

We aim to strike a balance between the incentive and retention goals of our equity grants:

All of the equity grants to our Chief Executive Officer are subject to performance goals.

For our other named executive officers, two-thirds of the equity grant value as of the grant date is in the form of performance share units, with the performance metrics described below, and one-third is in the form of service-based restricted share units.

The Compensation Committee bases the annual equity incentive awards made to the named executive officers as part of the total compensation package designed to be competitive with the benchmarked group and our industry. The Compensation Committee does not consider any increase or decrease in the value of past equity incentive awards in making these annual decisions. In considering the number of equity incentive awards to be granted in total to all employees each year, the Compensation Committee considers the number of equity incentive awards outstanding and the number of equity incentive awards to be awarded as a percentage of Aqua America's total shares outstanding. The number of equity incentive awards granted annually to all employees has been less than 1.0% of Aqua America's total shares outstanding per year for the past several years.

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

### **PERFORMANCE SHARE AWARDS**

Performance share or performance share unit grants ( PSU ) (together referred to as performance shares) provide the named executive officer with the opportunity to earn awards of shares based on Company performance against designated pre-determined, objective metrics. Participants are granted a target number of shares or units that, for the 2014, 2015 and 2016 PSU awards, can increase to 200% of the target or decrease to zero based on the Company's actual performance compared to the designated metrics. Dividends or dividend equivalents, as applicable, on the performance shares accrue and will be paid when the performance shares are earned and paid based on the number of shares actually earned, if any.

Since 2014, the performance goals to be achieved under the PSU awards have been based on the following performance goals, with the weighting of each goal assessed each year:

The Company's total shareholder return (TSR) at the end of the performance period as compared to the TSR of the other large investor-owned water companies (American Water Works Company, American States Water Company, Connecticut Water Service, Inc., California Water Service Group, Middlesex Water Company and SJW Corporation);

The Company's TSR compared to the TSR for the companies in the S&P Midcap Utility Index (Appendix A);

**Table of Contents**

The achievement of a targeted cumulative level of rate base growth as a result of acquisitions during the performance period ( Rate Base Growth ). Rate Base Growth includes rate base acquired and subsequent capital invested in these acquisitions during the applicable three year period; and

The achievement of maintaining Operating and Maintenance ( O&M ) expenses within the Company s regulated operations over the performance period.

**Outstanding 2016 PSU Awards**

The Compensation Committee has granted PSU awards each year since 2011. The 2016 PSU awards have similar performance goals to the 2017 PSU awards, with the same percentile rankings and scales, and a performance period that began on January 1, 2016 and will end on December 31, 2018. Please see the disclosure under the heading Outstanding Equity Awards at Fiscal Year- End for a description of the status of such 2016 PSU awards.

**Outstanding 2015 PSU Awards**

The PSU awards granted in 2015 have similar performance goals to the 2016 PSU awards, with different percentile rankings and scales, and a performance period that began on January 1, 2015 and will end on December 31, 2017. Please see the disclosure under the heading Outstanding Equity Awards at Fiscal Year- End for a description of the status of such 2015 PSU awards.

**2014 PSU Awards Achievement**

The three-year performance period for the PSU awards made by the Compensation Committee in 2014 ended on December 31, 2016. In February 2017, the Compensation Committee determined the achievement of performance goals for the 2014 PSUs. The Company s TSR was ranked 10th among the companies in the S&P Midcap 400 Utilities Index (Metric 1), the Company s TSR was ranked 7th among the other water companies (Metric 2), the O&M expense to revenue ratio for Aqua Pennsylvania was 30.70% (Metric 3), and the three-year cumulative total earnings before taxes in non-Aqua Pennsylvania subsidiaries was \$297,465 million (Metric 4).

As a result, the Compensation Committee certified that a 97.31% payout of the 2014 PSU awards was earned in accordance with the following results and weightings:

<b>2014 PSU Metrics</b>	<b>Payout</b>	<b>Weight</b>	<b>Percentage</b>
Metric 1	58.30%	30%	17.49%
Metric 2	0.00%	30%	0.00%
Metric 3	199.10%	20%	39.82%
Metric 4	200.00%	20%	40%

**CHANGES TO THE LONG-TERM EQUITY INCENTIVE AWARD DESIGN FOR 2017****The 2017 Performance-Based Grants**

For the performance-based grants made by the Compensation Committee in 2017, the Compensation Committee determined to grant 85% of the performance-based grants in the form of PSUs and 15% of the performance based grants in the form of stock options.



**Table of Contents**

**The 2017 PSUs**

For the PSUs, the period over which the Company's performance will be measured will be the three-year period of 2017 through 2019. The performance metrics for the 2017 PSUs represent both internal and external performance goals tied to TSR, cost reduction goals and rate base growth. All such awards are made subject to the terms and conditions of the Plan.

Specifically, the PSUs are subject to the following performance goals:

22.5% of the target award of performance-based grants shall be earned in the form of PSUs at the end of the performance period based on the Company's TSR at the end of the performance period as compared to the TSR of the other large investor-owned water companies (American Water Works Company, American States Water Company, Connecticut Water Service, Inc., California Water Service Group, Middlesex Water Company and SJW Corporation).

22.5% of the Target Award shall be earned in the form of PSUs at the end of the performance period based on the Company's TSR at the end of the performance period as compared to the TSR for the companies in the S&P Midcap Utility Index.

20% of the Target Award shall be earned in the form of PSUs based on the achievement of a targeted cumulative level of rate base growth as a result of acquisitions during the performance period ( Rate Base Growth ). Rate Base Growth includes rate base acquired and subsequent capital invested in these acquisitions during this three year period.

20% of the Target Award shall be earned in the form of PSUs based on the achievement of maintaining O&M expenses within the Company's regulated operations over the performance period.

The Compensation Committee believes the mixture of performance goals that compare the Company's performance to both the broader index of peer investor-owned utilities used by Pay Governance in evaluating the competitiveness of the Company's executive compensation program, and the specific investor-owned water utilities, coupled with performance goals designed to encourage the growth of the Company while continuing to focus on cost control and efficiency at the operating subsidiaries, leading to income growth, properly align the named executive officer compensation with the interests of shareholders.

The performance period for the 2017 PSUs is from January 1, 2017 until December 31, 2019.

**Stock Options**

In 2017, the Compensation Committee added performance-based stock options to the grants to the named executive officers. The Compensation Committee believes that the award of stock options, when paired with the performance and service-based stock awards, completely aligns the interests of the named executive officers with those of the shareholders. Fifteen percent of the named executive officer's performance-based awards will vest ratably over a three-year period of time based upon the Company's achievement of at least an adjusted return on equity equal to 150 basis points below the return on equity granted by the Pennsylvania Public Utility Commission during the Company's



Pennsylvania subsidiary's last rate proceeding. The Company's adjusted return on equity shall be calculated annually in accordance with the below descriptive formula and if the adjusted return on equity meets or exceeds 150 basis points below the return of equity of the most current Pennsylvania Public Utility Commission rate award, the award shall vest:

Return on Equity = net income (excluding net income or loss from acquisitions which have not yet been incorporated into a rate application as of the last year end) / equity (excluding equity applicable to acquisitions which are not yet incorporated in a rate application during the award period).

---

**Table of Contents**

The Compensation Committee believes that by providing the named executive officers with the ability to earn stock options, the named executive officers' interests are aligned with the shareholders' interests as the value of the stock option is a function of the price of the Company's stock. In addition, stock options provide the use of an additional performance metric for the earning of long-term equity compensation.

**RESTRICTED SHARE AWARDS**

Annual restricted share or restricted share unit grants (together referred to as restricted shares) entitle the named executive officer to receive the number of shares granted at the end of a given period of time, or in increments over a period of years on the anniversaries of the grant date, provided the named executive officer remains an employee of the Company, unless separation is due to death, disability, retirement or termination following a Change in Control, in which cases acceleration of the lapse of forfeiture restrictions occurs as set forth in the Plan. Dividends or dividend equivalents, as applicable, are accumulated and paid when the restricted shares are paid. The restricted shares to the other named executive officers (other than the Chief Executive Officer) vest 100% after three years, with vesting subject solely to continued service with the Company.

The restricted shares to the Chief Executive Officer vest 100% after three years, with vesting subject to continued service with the Company and the Company's achievement of at least an adjusted return on equity equal to 150 basis points below return on equity granted by the Pennsylvania Public Utility Commission during the Company's Pennsylvania subsidiary's last rate proceeding. The return on equity shall be calculated in the same manner as it is calculated for the purposes of determining the return on equity required for the vesting of stock options.

**RETIREMENT PLANS**

Our retirement plans are intended to provide competitive retirement benefits to help attract and retain employees. Some of our named executive officers are participants in our qualified pension plan (benefits frozen as of December 31, 2014) (the Retirement Plan), and in our non-qualified pension benefit plan (the Non-Qualified Pension Benefit Plan). Our non-qualified retirement plan is intended to provide executive officers with a retirement benefit that is comparable on a percentage of salary basis to that of our other employees participating in the Retirement Plan by providing the benefits that are limited under current Internal Revenue Service regulations. Benefits continue to accrue for some of our named executive officers in the Non-Qualified Pension Benefit Plan. Starting in 2009, the Company began to fund the trust for the benefits under the Non-Qualified Pension Benefit Plan using trust-owned life insurance. A named executive officer's retirement benefits under our qualified and non-qualified retirement plan are not taken into account in determining the executive's current compensation. Effective December 31, 2014, the named executive officers ceased accruing a benefit under the Retirement Plan. Specifically, their plan compensation and credited service for purposes of determining their benefits was frozen in the Retirement Plan as of December 31, 2014. Vesting service will continue to accrue in the Retirement Plan as long as the named executive officer remains employed by the Company.

**NON-QUALIFIED DEFERRED COMPENSATION PLAN**

We maintain a non-qualified Executive Deferred Compensation Plan (the Executive Deferral 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. Deferred amounts are 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 named executive officers with the full Company matching contribution available to other employees under our qualified plans, 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



## **Table of Contents**

Company matching contribution under such qualified plans due to the Internal Revenue Service regulations limiting the total dollar amount that can be deferred under a 401(k) plan (\$17,500 for 2014, and \$18,000 for 2015 and 2016), receive the portion of the Company 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 began to fund the trust holding amounts deferred by the participants in the Executive Deferral Plan using trust-owned life insurance. A named executive officer's deferrals, the Company's contributions and earnings on deferrals and contributions under our non-qualified deferred compensation plan are not taken into account in determining the named executive officer's current compensation.

## **SEVERANCE PLANS**

All of the named executive officers are covered by a severance policy. The policy provides the named executive officers with a severance benefit of one full year salary and one full year projected bonus and a minimum of one month of continued medical benefits and a maximum of six months of continued medical benefits following termination, provided that the named executive officer is terminated for any reason other than for cause.

Additionally, Mr. Franklin and the Company entered into an Employment Agreement when he became our Chief Executive Officer ( Mr. Franklin's Employment Agreement ). Pursuant to Mr. Franklin's Employment Agreement, if the Company terminates Mr. Franklin's employment without cause or does not renew the term of the Employment Agreement, or Mr. Franklin terminates his employment for good reason (as defined in the agreement), Mr. Franklin will receive any accrued but unpaid salary and accrued vacation as well as a lump sum equal to (i) 24 months of base salary and (ii) two times the target annual bonus. If the Company terminates Mr. Franklin's employment for cause or if he terminates his employment without good reason, or for death or disability, Mr. Franklin (or his estate) will receive any accrued but unpaid salary and accrued vacation. Mr. Franklin's Employment Agreement is filed with our SEC filings.

## **CHANGE-IN-CONTROL AGREEMENTS**

We maintain change-in-control agreements with the named executive officers. These change-in-control agreements 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 in control of Aqua America, enable the executives to impartially evaluate such a transaction, provide a retention incentive to our named executive officers and encourage their attention and dedication to their duties and responsibilities in the event of a possible change-in-control. Under the terms of these agreements, the covered named executive officer is entitled to certain severance payments and a payment in lieu of the continuation of benefits if he experiences 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 59 through 65.)

These change-in-control agreements are referred to as double trigger agreements because they only provide a benefit to executives whose employment is terminated, or who have good reason to resign, following a change-in-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. The normal annual restricted share and performance share grants to the named executive officers since 2011 also contain double trigger provisions. Each of the change-in-control agreements limits 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 Company has determined that there will be no tax gross-ups in any change-in-control agreements with executives and that all such agreements will be subject to the limitations under Section 280G of the Code. We believe that the multiples of compensation and other benefits provided under the change-in-control

**Table of Contents**

agreements, as described on pages 59 through 60, are consistent with the multiples in the market. Named executive officers 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.

**THE ROLE OF MANAGEMENT IN THE EXECUTIVE COMPENSATION PROCESS**

Our Senior Vice President and Chief Human Relations 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 Compensation Committee with a 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 the Compensation Committee's determination of the Company Factor for the Annual Cash Incentive Compensation Plan, our performance against the criteria established by the Compensation Committee for the vesting of restricted share grants and the earning of performance shares. These financial measures are also certified by our Director of Internal Audit. Our Chief Executive Officer makes recommendations to the Compensation 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 the Company'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 incentive compensation) 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 entirely deductible for federal income tax purposes.

**STOCK OWNERSHIP GUIDELINES/ANTI-HEDGING AND ANTI-PLEDGING POLICY**

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 interests of these executive officers with the long-term performance of the Company. In 2012, these guidelines were modified to recognize the different levels of executives who may be among the named executive officers and to state the guidelines in terms of the number of shares to be held rather than a dollar value, in order to avoid fluctuations in the number of shares to be held based on variations in the Company's stock price. In establishing the number of shares to be held, the Compensation Committee used a round number of shares, the value of which approximates the following multiples of the midpoint of the base salary grade for the executives:

**Position****Number of Shares**

	<b>Approximate Multiple of Salary Midpoint</b>	
Chief Executive Officer	5	150,000
Executive Vice President	3	40,000
Senior Vice President	2	20,000

**Table of Contents**

Each named executive officer is expected to have shareholdings consistent with these guidelines within five years after becoming a named executive officer or after receiving a significant promotion. Messrs. Franklin and Fox each received a significant promotion in 2015 and Mr. Schuller was initially hired, starting a new five-year period for each.

Shareholdings, as defined for ownership requirement purposes, include shares held directly or beneficially, including shares acquired under our Employee Stock Purchase Plan or 401(k) plans. Shareholdings do not include exercisable stock options, restricted shares still subject to restrictions or performance shares before being earned. An executive who has not achieved the guideline within this five-year period is expected to retain one-half of any equity awards, after any required tax withholding, in Company stock and to use 10% of any annual cash incentive awards after tax to purchase shares of Company stock until the guideline is met. The below chart shows the share ownership of the named executive officers as of March 7, 2017:

<b>OFFICER OWNERSHIP</b>		
<b>Name</b>	<b>Position</b>	<b>Shareholdings</b>
FRANKLIN	Chief Executive Officer	68,182
SMELTZER	Executive Vice President	97,667
FOX	Executive Vice President	5,269
SCHULLER	Executive Vice President	2,637
LUNING	Senior Vice President	29,789

It is the Company's policy not to permit hedging or pledging or short-selling of the Company's stock by its named executive officers. None of our named executive officers pledged any shares of Company stock during 2016. None of our named executive officers engaged in any hedging activities with respect to the Company stock during 2016.

**CLAWBACK OF INCENTIVE COMPENSATION**

In the event of a significant restatement of our financial results caused by executive fraud or willful misconduct, the Compensation Committee reserves the right to review the cash incentive compensation received by the named executive officers 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 cash incentive compensation that was based on the misstated financial results from the executive or executives whose fraud or willful misconduct was the cause of the restatement. In addition, starting with the performance share unit grants and restricted share unit grants in 2014, all shares issued pursuant to those grants are subject to any applicable recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.



**Table of Contents****2016 EXECUTIVE COMPENSATION****SUMMARY COMPENSATION TABLE**

The following Summary Compensation Table shows compensation paid to or earned by the named executive officers.

**SUMMARY COMPENSATION TABLE**

Principal Position	Year	Salary (\$)(1)	Bonus (\$)	Option Award (\$)(2)	Non-Equity Incentive Compensation (\$)(3)	Change in	All Other Compensation (\$)(5)	Total (\$)
						Pension		
						Value and		
						Grant Date		
						Fair Value of		
						Stock and		
						Option Award		
						Compensation		
						Earnings		
						Deferred		
						Non-qualified		
						Compensation		
CHRISTOPHER H. FRANKLIN President and Chief Executive Officer	2016	658,324		1,271,034	862,858	1,017,238	14,645	3,824,099
	2015	483,801		710,830	524,511	405,995	15,043	2,140,180
	2014	339,471		316,764	254,010	571,849	23,205	1,505,299
DAVID P. SMELTZER Executive V.P. and Chief Financial Officer (Principal Financial Officer)	2016	385,663		388,786	275,197	565,493	18,778	1,633,917
	2015	369,037		396,700	265,980	393,970	11,755	1,437,442
	2014	371,296		377,100	268,861	715,175	20,975	1,753,407
RICHARD S. FOX Executive Vice President and Chief Operating Officer	2016	338,907		334,954	245,928	237,445	16,863	1,174,097
	2015	255,714		191,295	145,246	93,579	11,003	696,837
	2014							
DANIEL J. SCHULLER Executive Vice President, Strategy and Corporate Development	2016	355,143		515,590	268,018		20,304	1,159,055
	2015	141,346		160,440	104,271		41,697	447,754
	2014							
CHRISTOPHER P. LUNING Senior Vice President, General Counsel and Secretary	2016	313,224		305,048	180,306	205,336	14,934	1,018,848
	2015	293,558		277,690	175,500	111,083	14,048	871,879
	2014	278,269		263,970	176,512	174,769	17,787	911,307

(1) Salary and Non-Equity Incentive Plan Compensation amounts include amounts deferred by the named executive officer pursuant to the Executive Deferral Plan described on pages 46 through 47.

(2) The grant date fair value of stock-based compensation is based on the 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 Note 14, Employee Stock

and Incentive Plan contained in the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. For performance shares, and with respect to the Chief Executive Officer, the RSUs, the Grant Date Fair Value of Stock and Options Awards shown is based on the target number of the shares underlying the awards granted. The Grant Date Fair Value of Stock if the maximum payout occurred would be \$3,684,580 in the aggregate for the PSUs and \$973,121 for the RSU award to the Chief Executive Officer.

- (3) Non-Equity Incentive Plan Compensation is shown for the year in which the compensation is earned, and is generally paid in the following calendar year. See the description of these annual cash incentive awards above under the CD&A section of this Proxy Statement.
- (4) 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 pension plans (including non-qualified pension plans) from the pension plan measurement date used for financial statement reporting purposes in the Company's audited 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. All amounts deferred by participants in the Executive Deferral Plan and all prior deferrals under the Executive Deferral Plan are 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; there are no preferential or above-market earnings on this deferred compensation. Mr. Schuller is not eligible to participate in the Retirement Plan since he was hired by the Company after the Retirement Plan was closed to new entrants.
- (5) All Other Compensation includes the following components:

**Table of Contents**

ALL OTHER COMPENSATION								
		Dividend Equivalents \$(a)	Group Life \$(b)	401(k) Company Match \$(c)	Relocation \$(d)	Car Allowance \$(e)	Other (\$)	Total (\$)
FRANKLIN	2016		3,450	7,950		3,245		14,645
	2015		3,367	7,950		3,726		15,043
	2014	8,325	1,098	7,800		5,982		23,205
SMELTZER	2016		3,777	7,950		7,051		18,778
	2015		3,581	7,950		224		11,755
	2014	9,713	3,462	7,800				20,975
FOX	2016		3,261	7,950		5,652		16,863
	2015		1,706	5,514		3,783		11,003
	2014							
SCHULLER	2016		248	12,009		8,047		20,304
	2015			4,106	35,883	1,708		41,697
	2014							
LUNING	2016		1,055	7,929		5,950		14,934
	2015		990	7,768		5,290		14,048
	2014	5,550	900	3,588		7,749		17,787

- a) Represents dividends paid pursuant to the Plan.
- b) Represents the taxable value of group life insurance benefit for the named executive officer.
- c) Includes Company match to the 401(K) and the non-qualified retirement plan.
- d) Represents reimbursement provided under the Company's policy.
- e) The Company provides the use of Company owned or leased vehicles for all named executive officers.

**GRANTS OF PLAN-BASED AWARDS**

The following table sets forth information regarding equity and non-equity awards granted to the named executive officers in 2016:

GRANTS OF PLAN-BASED AWARDS						
	Estimated Future Payouts			All Other Stock Awards:		
	Under Non-Equity Incentive Plan Awards (1)			Number of Shares or Units (6)		
	Threshold	Target	Maximum	Threshold	Target	Maximum

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Name	Grant	\$(2)	\$(3)	\$(4)	(#)	(#)	(#)	(#)	(#) (\$/Sh)	\$(7)
FRANKLIN	3/30/16	138,851	566,738	1,062,633	14,167	28,333	56,666			814,857
	3/30/16					14,167				456,177
SMELTZER	3/30/16	52,633	214,830	402,806	4,334	8,667	17,334	4,333		388,786
FOX	3/30/16	45,907	187,374	351,326	3,734	7,467	14,934	3,733		334,954
SCHULLER	2/25/16	48,106	196,350	368,156	2,323	4,645	9,290	875		180,637
	3/30/16				3,734	7,467	14,934	3,733		334,954
LUNING	3/30/16	35,060	143,100	268,313	3,400	6,800	13,600	3,400		305,048

- (1) The named executive officer's Non-Equity Incentive Plan Awards are calculated based on the named executive officer'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%. 75% of the Company's financial target must be achieved.

---

**Table of Contents**

- (3) The Target Non-Equity Incentive Plan Award is based on the minimum 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%. 110% or more of the Company's financial target must be achieved to earn the maximum non-equity incentive plan award.
- (5) The March 30, 2016 Equity Incentive Plan Awards in these columns are composed of PSU and RSUs for the Chief Executive Officer Mr. Franklin, and PSUs for the other named executive officers. The PSUs for all named executive officers vest on the third anniversary of the grant date, subject to the degree of achievement of the applicable performance goals. Mr. Schuller received a PSU grant on February 25, 2016 which vests on February 25, 2019 and another PSU grant that vests on February 25, 2018.
- (6) Represents service-based RSU grants for the named executive officers other than Mr. Franklin, which vest on the third anniversary of the grant date as long as the named executive officer is providing service to the Company. Mr. Schuller received a RSU grant which vests on February 25, 2019.
- (7) The grant date fair value of RSU based on their fair market value on the date of grant as determined under FASB accounting standards for stock compensation. The assumptions used in calculating the fair market value under FASB's accounting standard for stock compensation are set forth in Note 14, Employee Stock and Incentive Plan contained in the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Equity awards in 2016 consisted of RSUs and PSUs. The RSU grants to the named executive officers vest at the end of three years from the grant date. The PSU grants to the named executive officers vest at the end of three years from the grant date, but the amount of the payout can range from 0% to 200% of the target grant depending on the Company's performance against the performance goals described on pages 43 to 44. The threshold level of PSUs that a grantee can earn is 50% of the target grant and the maximum level a grantee can earn is 200% of the target grant. The threshold, target and maximum payout for each of the named executive officers is shown in the Grants of Plan-Based Awards Table above.

If the Company does not achieve the required financial performance to meet the designated performance criteria, the performance shares that are subject to such performance criteria that would otherwise vest are forfeited.

**Table of Contents****OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

The following table sets forth information on outstanding stock option and stock awards held by the named executive officers at the end of 2016.

Name	Option Awards					Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercised Options (#)	Number of Awards of Securities Underlying Unexercised Options	Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (1)	Market Value of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other	
FRANKLIN						8,173	260,234	74,127	2,259,293
SMELTZER						9,730	309,810	33,000	1,013,744
FOX	5,750			13.72	01/22/2020	1,459	46,456	19,375	589,908
SCHULLER						2,894	88,288	20,045	608,240
LUNING						6,811	216,867	24,200	742,823

- (1) The performance goals for the PSUs granted for 2014 for the three-year performance period ended December 31, 2016 were as follows: (a) 30% based on Aqua's percentile ranking for TSR within the S&P MidCap Utilities Index; (b) 30% based on attainment of the Company's ordinal ranking for TSR compared to a specified peer group of seven investor-owned water companies; (c) 20% based on Aqua Pennsylvania's ratio of the consolidated O&M expenses to revenue, and (d) the remaining 20% based on the combined earnings before taxes for the Company's operations other than Aqua Pennsylvania (non-PA EBT). In February 2017, the Compensation Committee determined the achievement of the performance goals for the 2014 PSUs. The Company's TSR was in the 10<sup>th</sup> percentile among the companies in the S&P Midcap Utilities Index (Metric (a)), the Company's TSR was ranked 7<sup>th</sup> among the other water companies (Metric (b)), the consolidated O&M expense to revenue ratio for Aqua Pennsylvania was 30.7% (Metric (c)), and the combined non-PA EBT was \$297,465 million.
- (2) The PSUs in this column that are vested and earned for the named executive officers are:

Named Executive Officer	Date Earned	Date Vested and Paid	Number of Shares Issued
FRANKLIN	12/31/2016	2/27/2017	8,173

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

SMELTZER	12/31/2016	2/27/2017	9,730
FOX	12/31/2016	2/27/2017	1,459
SCHULLER	12/31/2016	2/27/2017	2,894
LUNING	12/31/2016	2/27/2017	6,811

The value of the awards includes accrued and unpaid dividend equivalents. The dividend equivalents were accrued based upon the assumption that the PSUs would be issued based upon the target award.

- (3) For the PSUs granted in 2015, the Company's interim performance through December 31, 2016 is 85.7%. For the PSUs granted in 2016, the Company's interim performance through December 31, 2016 is 65.0%.

**Table of Contents**

(4) <b>Named Executive Officer</b>	<b>Performance Share Units</b>			<b>Restricted Share Units</b>		
	<b>Date To Be Earned If Applicable</b>	<b>Date To Be Vested And Paid If Earned</b>	<b>Number Of Units Issued At Target</b>	<b>Date To Be Earned If Applicable</b>	<b>Date To Be Vested And Paid If Earned</b>	<b>Number Of Units Issued At Target</b>
FRANKLIN				2/27/2017	2/27/2017	4,200
	12/31/2017	2/23/2018	18,292	2/23/2018	2/23/2018	9,135
	12/31/2018	2/21/2019	28,333	2/21/2019	2/21/2019	14,167
SMELTZER				2/27/2017	2/27/2017	5,000
	12/31/2017	2/23/2018	10,000	2/23/2018	2/23/2018	5,000
	12/31/2018	2/21/2019	8,667	2/21/2019	2/21/2019	4,333
FOX				2/27/2017	2/27/2017	750
	12/31/2017	2/23/2018	4,950	2/23/2018	2/23/2018	2,475
	12/31/2018	2/21/2019	7,467	2/21/2019	2/21/2019	3,733
SCHULLER				2/27/2017	2/27/2017	
	12/31/2017	2/23/2018	5,870	2/23/2018	2/23/2018	2,975
	12/31/2018	2/21/2019	7,467	2/21/2019	2/21/2019	3,733
LUNING				2/27/2017	2/27/2016	3,500
	12/31/2017	2/23/2018	7,000	2/23/2018	2/27/2017	3,500
	12/31/2018	2/21/2019	6,800	2/21/2019	2/21/2019	3,400

All such PSUs are subject to the achievement of the applicable performance criteria for the designated performance period, and continued service with the Company on the vesting date; actual results could vary materially at the end of the performance period. All RSUs are subject to the achievement of applicable performance criteria, including the individual's continued service with the Company on the vesting date.

**OPTIONS EXERCISED AND STOCK VESTED**

The following table sets forth (1) the number of shares of stock options, restricted shares, PSUs or RSUs previously granted to the named executive officers that were exercised, vested or were earned for 2016, and (2) the value realized by those officers upon the exercise, vesting, or payment of such shares based on the closing market price for our shares of Common Stock on the exercise or vesting date.

Name	<b>OPTIONS EXERCISED AND STOCK VESTED</b>			
	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting (1)
	(#)	(\$)	(#)(1)	(\$)
FRANKLIN	31,422	316,775	14,904	485,752
SMELTZER	10,000	176,990	16,560	539,724
FOX			3,524	114,842
SCHULLER				
LUNING			7,452	242,147



- (1) The Number of Shares Acquired on Vesting column represents the number of shares of common stock issued upon the earning and vesting of the 2013 PSUs. The Value Realized on Vesting column includes the fair value of the shares paid on vesting plus dividends paid for PSUs and RSUs vesting in the amount of \$28,944 for Mr. Franklin, \$32,160 for Mr. Smeltzer, \$6,843 for Mr. Fox, \$0 for Mr. Schuller, and \$13,743 for Mr. Luning.

**Table of Contents****RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS****PENSION BENEFITS**

The following table sets forth: (1) the number of years of credited service for the named executive officers under our various retirement plans as of December 31, 2016; (2) the actuarial present value of accumulated benefits under those plans as of December 31, 2016; and, (3) any payments made to the named executive officers in 2016 under those plans.

<b>PENSION BENEFITS</b>				
<b>Name</b>	<b>Plan Name</b>	<b>Number of Years of Credited Service* (#)</b>	<b>Present Value of Accumulated Benefit (\$)</b>	<b>Payments During Last Fiscal Year (\$)</b>
FRANKLIN	Retirement Income Plan for Aqua America, Inc. and Subsidiaries	22	890,511	
	Non-Qualified Retirement Plan	24	2,092,109	
SMELTZER	Retirement Income Plan for Aqua America, Inc. and Subsidiaries	29	1,379,329	
	Non-Qualified Retirement Plan	31	2,392,391	
FOX	Retirement Income Plan for Aqua America, Inc. and Subsidiaries	13	468,060	
	Non-Qualified Retirement Plan	15	284,534	
SCHULLER	Retirement Income Plan for Aqua America, Inc. and Subsidiaries			
	Non-Qualified Retirement Plan			
LUNING	Retirement Income Plan for Aqua America, Inc. and Subsidiaries	12	352,279	
	Non-Qualified Retirement Plan	14	368,885	

\* For benefit accrual purposes, credited service in the Retirement Plan is frozen as of 12/31/14. For early retirement eligibility purposes, service continues to accrue after 12/31/14 and will equal that shown for the Non-Qualified Retirement Plan.

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

The Company sponsors a qualified defined benefit Retirement Plan to provide retirement income to the company's employees hired prior to certain dates starting in 2003. Effective December 31, 2014, the named executive officers ceased accruing a benefit under the Retirement Plan. Specifically, their plan compensation and credited service for purposes of determining their benefits were frozen in the Retirement Plan as of December 31, 2014.

For the portion of the Retirement Plan covering certain of the named executive officers, plan compensation is defined as total compensation paid, but excludes contributions made by the Company to a plan of deferred compensation, distributions from a deferred compensation plan, amounts realized from the exercise of stock options or when

restricted shares underlying restricted share units or performance shares become freely transferable, fringe benefits, welfare benefits, reimbursements or other expense allowances, moving expenses and commissions. The Employee Retirement Income Security Act of 1974, as amended ( ERISA ), imposes maximum limitations on the annual amount of pension benefits that may be paid, and the amount of compensation that may be taken into account in calculating benefits, under a qualified, funded, defined benefit pension plan such as the Retirement Plan. The Retirement Plan complies with these ERISA limitations.

Benefits earned under the final pay formula for the retirement plan are equal to 1.35% of average plan compensation plus 0.45% of average plan compensation above Covered Compensation for each year of credited service up to 25 years, and 0.5% of average plan compensation for each year of credited service above 25 years. The annual benefit is further subject to a minimum benefit schedule. Average plan compensation is defined as the average of plan compensation over the highest five consecutive years out of the last ten years.

---

**Table of Contents**

Covered Compensation is defined as the average of the Social Security Wage Bases (as defined in the Retirement Plan) in effect for each calendar year during the 35-year period ending with the last day of the calendar year of the benefit determination. Effective December 31, 2014, years of credited service and plan compensation in the Retirement Plan were frozen for the named executive officers.

Under the terms of the Retirement Plan, a Company participant becomes fully vested in his or her accrued pension benefit after five years of credited service. All named executive officers (with the exception of Mr. Schuller) are vested in the Retirement Plan. Participants may retire as early as age 55 with 10 years of service. Unreduced benefits are available when a participant attains the earlier of age 65 with 5 years of vesting service or age 62 with 30 years of vesting service. Otherwise, benefits are reduced 3% for each year by which retirement precedes the attainment of age 65 or are reduced actuarially in accordance with the terms of the Retirement Plan and federal law if payment occurs before age 55. Pension benefits earned are payable in the form of a lifetime annuity or can be collected as a lump sum benefit after retirement. Married individuals may receive a reduced benefit paid in the form of a qualified joint and survivor annuity. Mr. Smeltzer is currently eligible to retire under the Retirement Plan.

**NON-QUALIFIED RETIREMENT PLAN**

Effective December 1, 1989, the Board of Directors adopted a supplemental benefits plan for salaried employees of the Company. On December 1, 2014, the Board of Directors adopted an amended benefits plan for salaried employees of the Company (the Non-Qualified Pension Benefit Plan). The Non-Qualified Pension Benefit Plan is a plan that is intended to provide an additional pension benefit to Company participants in the Retirement Plan and their beneficiaries whose benefits under the Retirement Plan are adversely affected by the ERISA limitations described above. Effective December 31, 2014, the Non-Qualified Pension Benefit Plan was amended to include credited service and plan compensation that the named executive officers would have otherwise accrued under the Retirement Plan if their benefit had not been frozen in the Retirement Plan. In addition, deferred compensation is excluded from the Retirement Plan plan compensation definition, but is included in the calculation of benefits under the Non-Qualified Pension Benefit Plan. The benefit under the Non-Qualified Pension Benefit Plan is equal to the difference between (i) the amount of the benefit the Company participant would have been entitled to under the Retirement Plan absent such ERISA limitations, absent the freezing of plan compensation and credited service, and including deferred compensation in the final average earnings calculation, and (ii) the amount of the benefit actually payable under the Retirement Plan.

Participants may retire as early as age 55 with 10 years of service under the Non-Qualified Pension Benefit Plan. Unreduced benefits are available when a participant attains the earlier of age 65 with 5 years of service or age 62 with 30 years of service. Otherwise, benefits are reduced 3% for each year by which retirement precedes the attainment of age 65. Pension benefits earned under the Non-Qualified Pension Benefits Plan are payable in the form of a lump sum, unless an alternative election is made. An alternative election may be made such that benefits are paid as an annuity for life (and the life of the participant's spouse upon death), in a series of installments or under certain circumstances transferred at separation from employment to up to five separation distribution accounts under the Company's Executive Deferral Plan.

Messrs. Franklin, Fox, Smeltzer and Luning are earning benefits under the Non-Qualified Pension Benefit Plan, and are fully vested in those benefits. Messrs. Fox and Smeltzer are currently eligible to retire under the Non-Qualified Pension Benefit Plan. Mr. Schuller does not earn any benefits under the Non-Qualified Pension Benefit Plan. In 2009, the Company began to fund the Non-Qualified Pension Benefit Plan through the use of trust-owned life insurance.



**Table of Contents****ACTUARIAL ASSUMPTIONS USED TO DETERMINE VALUES IN THE PENSION BENEFITS TABLE**

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

	<b>RETIREMENT AGES</b>	
	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Discount rate</b>	<b>4.13%</b>	<b>4.48%</b>
FRANKLIN	62	62
SMELTZER	62	62
LUNING	65	65
FOX	65	65
Termination, pre-retirement mortality and disability rates	None	None
Post-Retirement Mortality	50% of the present value for the Retirement Plan is calculated using the RP-2014 gender specific annuitant mortality tables (with MP-2014 mortality improvements removed from 2006 to 2014) projected generationally from 2006 with Scale BB 2-Dimensional improvements. 50% of the present value of the Retirement Plan and 100% of the present value for the Non-Qualified Pension Plan is calculated using a 50% male and a 50% female blended RP-2014 annuitant mortality table (with MP-2014 mortality improvements removed from 2006 to 2014) projected generationally from 2006 with Scale BB 2-Dimensional improvements.	50% of the present value for the Retirement Plan is calculated using the RP-2014 gender specific annuitant mortality tables (with MP-2014 mortality improvements removed from 2006 to 2014) projected generationally from 2006 with Scale BB 2-Dimensional improvements. 50% of the present value of the Retirement Plan and 100% of the present value for the Non-Qualified Pension Plan is calculated using a 50% male and a 50% female blended RP-2014 annuitant mortality table (with MP-2014 mortality improvements removed from 2006 to 2014) projected generationally from 2006 with Scale BB 2-Dimensional improvements.



**Table of Contents****NON-QUALIFIED DEFERRED COMPENSATION**

The following table sets forth information regarding contributions to, earnings on, withdrawals from and balances as of the end of 2016 for our non-qualified Executive Deferral Plan.

<b>NON-QUALIFIED DEFERRED COMPENSATION</b>				
<b>Name</b>	<b>Registrant Contributions in Last FY (\$)</b>	<b>Aggregate Earnings in Last FY (\$)(1)</b>	<b>Aggregate Withdrawals / Distributions (\$)</b>	<b>Aggregate Balance at Last FYE (\$)</b>
FRANKLIN		3,144		72,088
SMELTZER	53,196	20,264		456,721
FOX	48,415	4,640		62,884
SCHULLER				
LUNING				

(1) In 2016, the deferred amounts were invested in mutual funds chosen by the participant under a trust-owned life insurance policy maintained by the Company to fund the Executive Deferral Plan. The earnings shown in this column include the earnings on those mutual funds.

Employees with total projected W-2 compensation for 2016 in excess of \$141,000 are eligible to participate in the Company's Executive Deferral Plan for 2017. Participants may defer up to 100% of their salary and 100% of their non-equity incentive compensation under the Company's Annual Cash Incentive Compensation Plan. At the time the participant elects to make a deferral under the Executive Deferral Plan, the participant is also required to elect the form of payment with respect to the amounts deferred for the upcoming calendar year. If a separation distribution account is elected, the participant may choose to receive his or her distribution in either a lump sum payment or, subject to certain requirements, in annual installments over 2 to 15 years. If a flexible distribution account is elected, the participant will receive his or her distribution in a lump sum payment. The executive officers, including the named executive officers, may not commence the receipt of their account balances and the earnings on these deferrals sooner than the first day of the seventh month following the date of the executive's separation from employment.



**Table of Contents****POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL****CHANGE-IN-CONTROL**

The Company maintains change-in-control agreements with its named executive officers. Payments under these agreements are triggered if the named executive officer's employment is terminated other than for cause or the executive resigns for good reason, as defined in the agreements, within two years after consummation of a change-in-control transaction involving the Company.

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

<b>Name</b>	<b>Multiple of Base Compensation</b>	<b>Payment in lieu of Health Benefit</b>	
		<b>Continuation Period</b>	<b>Outplacement Services</b>
FRANKLIN	2	2	6 Months
SMELTZER	2	2	6 Months
FOX	2	2	6 Months
SCHULLER	2	2	6 Months
LUNING	2	2	6 Months

For purposes of the change-in-control agreements, Base Compensation is defined as current base annual salary, plus the greater of the named executive officer's target bonus for the year in which the executive incurs a termination of employment, or the last actual bonus paid to the named executive officer under the Annual Cash Incentive Compensation Plan (or any successor plan maintained by Aqua America), in all capacities with Aqua America and its subsidiaries or affiliates. The executive's Base Compensation would be determined prior to reduction for salary deferred by the named executive officer under any deferred compensation plan of Aqua America and its subsidiaries or affiliates, or otherwise. The named executive officer is entitled to receive a pro-rata share of the named executive officer's target annual cash incentive compensation based on the portion of the calendar year that has elapsed at the time of the named executive officer's termination. The named executive officer is also entitled to receive a lump sum payment in lieu of the continuation of certain health benefits for a period of 2 years and outplacement services.

The payment of the multiple of Base Compensation would be made in a lump sum within 60 days after the executive's termination as defined under the agreement, although pursuant to the requirements of Section 409A of the Code, part or all of such payment may need to be deferred until the first day of the seventh month following the date of the named executive officer's separation from employment. Each executive is required to execute a standard release of the Company as a condition to receiving the payment under the agreement.

Starting in 2011, for equity incentive awards made under the Plan: (i) for restricted share units without performance goals, if a change-in-control occurs prior to the vesting date, the restricted share units would remain outstanding and vest on the vesting date; and (ii) for performance shares, if a change-in-control occurs, performance would be measured at the date of the change-in-control, and the number of performance shares earned would be determined as of the date of the change-in-control as follows:

If a change-in-control occurs more than one year after the grant date, the number of performance shares earned as of the change-in-control date would be the greater of (i) the amount earned based on actual performance, or (ii) the target number of performance shares.

---

**Table of Contents**

If a change-in-control occurs within one year after the grant date, the number of performance shares earned as of the change-in-control date would be a pro rata portion (based on the number of whole months in the applicable performance period worked from the date of grant to the change-in-control) of the greater of (i) the amount earned based on actual performance, or (ii) the target number of performance shares.

Any performance shares that are not earned at the change-in-control date would be forfeited. The vesting of these equity incentives is applicable to all grantees under the Plan.

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

- (1) any person (including any individual, firm, corporation, partnership or other entity except Aqua America, any subsidiary of Aqua America, any employee benefit plan of Aqua America or of any subsidiary, or any person or entity organized, appointed or established by Aqua America for or pursuant to the terms of any such employee benefit plan), together with all affiliates and associates of such person, shall become the beneficial owner in the aggregate of 20% or more of the common stock of Aqua America then outstanding;
- (2) during any 24-month period, individuals who at the beginning of such period constitute the Board of Directors of Aqua America cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by Aqua America's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or
- (3) there occurs a sale of 50% or more of the aggregate assets or earning power of Aqua America and its subsidiaries, or its liquidation is approved by a majority of its shareholders or Aqua America is merged into or is merged with an unrelated entity such that following the merger the shareholders of Aqua America no longer own more than 50% of the resultant entity.

The change-in-control agreement for Mr. Franklin and the form of change-in-control agreement for the other named executive officers have been filed with the SEC as exhibits to the Company's periodic report filings.

**RETIREMENT AND OTHER BENEFITS**

Under the terms of our qualified and non-qualified defined benefit retirement plans, eligible salaried employees, including the certain named executive officers, are entitled to certain pension benefits upon their termination, retirement, death or disability. In general, the terms under which benefits are payable upon these triggering events are the same for all participants under the qualified and non-qualified plans. The present value of accumulated pension benefits, assumed payable at the earliest unreduced age (or current age, if later), for the named executive officers is set forth in the Pension Benefits Table on page 55. The pension benefit values included in the tables on pages 63 through 65 reflect the incremental value above the amounts shown in the Pension Benefits Table for benefits payable upon each triggering event from all pension plans in the aggregate.

The Company sponsors postretirement medical plans to subsidize retiree medical benefits for employees hired prior to certain dates starting in 2003. Under the postretirement medical plans, employees are generally eligible to retire upon attainment of age 55 and completion of 15 years of service. Upon retirement, eligible participants are entitled to

receive subsidized medical benefits prior to attainment of age 65 where the subsidy provided is based upon age and years of service upon retirement. Upon attainment of age 65, eligible participants are entitled to receive employer contributions into a premium reimbursement account which may be used by the retiree in paying medical and prescription drug benefit premiums. Mr. Smeltzer and Mr. Fox are eligible for these benefits. The postretirement medical benefits shown in the tables on pages 63 through 65 are those which are payable from the Company under each of the triggering events.

---

**Table of Contents**

Assumptions used to determine the values are the same as those disclosed on the Company's financial statements. In addition, the Company assumes immediate termination, retirement, death or disability have occurred at December 31, 2016 for purposes of the tables on pages 63 through 65. Participants not eligible to receive benefits if leaving under a triggering event as of December 31, 2016 are shown with zero value in the tables.

Upon termination for any reason, the named executive officer in our Executive Deferral Plan, would be entitled to a distribution of their account balances as set forth in the Nonqualified Deferred Compensation table on page 58, subject to the restrictions under the Executive Deferral Plan described on page 58. The values of these account balances are not included in the tables on pages 63 through 65. The named executive officers are also eligible for the same death and disability benefits of other eligible salaried employees. These common benefits are not included in the tables on pages 63 through 65.

Under the terms of our 2004 Equity Compensation Plan, upon termination of a grantee's employment as a result of retirement, disability or death, the period during which stock options that were granted prior to 2009, which are otherwise exercisable, may be exercised shall not exceed: (i) one year from the date of such termination of employment in the case of death; (ii) two years from the date of such termination in the case of permanent and total disability (within the meaning of Section 22(e)(3) of the Code) or retirement; and (iii) three months from the date of such termination of employment in the case of other disability; provided, however, that in no event shall the period extend beyond the expiration of the option term. To the extent that any option granted prior to 2009 is not otherwise exercisable as of the date on which the grantee ceases to be employed by the Company or any subsidiary, the un-exercisable portion of the option shall terminate as of such date.

Under the terms of the Plan, the period during which stock options may be exercised shall not exceed: (i) one year from the date of such termination of employment in the case of death; or (ii) thirty-eight months from the date of such termination in the case of retirement or disability, provided, however, that in no event shall the period extend beyond the expiration of the option term. The Compensation Committee, in its sole discretion, may determine that any portion of an option that has not become exercisable as of the date of the grantee's death, termination of employment on account of permanent and total disability or other termination of employment may be exercised by a grantee, or in the case of death, a grantee's legal representative or beneficiary.

Under the terms of the restricted share unit grants under the Plan, grantees of restricted share units will (i) vest in a pro-rata portion of unvested grants upon the grantee's termination of employment as a result of retirement, or (ii) vest immediately in unvested grants following the grantee's termination of employment as a result of death or disability. Shares of Company stock equal to the applicable portion of the restricted share units shall be issued to the grantee within 60 days following the grantee's retirement, death or disability, subject to applicable tax withholding and the values of these restricted share units as of December 31, 2016 are included in the tables on pages 63 through 65.

Under the terms of the performance share unit grants under the Plan, grantees of performance share units will (i) earn a pro-rata portion of unvested grants upon the grantee's termination of employment as a result of retirement or earn immediately any unvested grants following the grantee's termination of employment as a result of death or disability. Shares of Company stock equal to the applicable portion of the performance share units shall be issued to the grantee on the vesting date for such performance share units and the estimated values of these performance share units based on interim performance through December 31, 2016 are included in the tables on pages 63 through 65. For purposes of the performance share units tied to the performance goal of cumulative earnings before taxes, the Company's actual performance is measured against a pro rata portion of the performance goal as of year-end. Actual performance results for the full performance period may be substantially different from the amounts presented in the tables on pages 63 through 65.



## **Table of Contents**

### **TERMINATION**

With respect to a termination event other than in connection with a change-in-control, the severance plan applicable to the named executive officers other than Mr. Franklin, and Mr. Franklin's Employment Agreement as described on page 47, govern the payment obligation of the Company.

In addition, once vested, participants are eligible to receive qualified benefits under the Retirement Plan and nonqualified benefits from the Non-Qualified Pension Benefit Plan. Benefits vest upon attaining five years of service. Pension benefits for Messrs. Franklin, Smeltzer, Fox, and Luning are vested and payable from the Retirement Plan as well as the Non-Qualified Pension Benefit Plan.

The full value of the benefits payable due to termination is determined based on the assumed timing and form of the benefits payable as follows: the benefits for Messrs. Franklin, Fox and Luning are payable as an immediate lump sum payment or life annuity from the Retirement Plan and an immediate lump sum payment at age 55 from the non-qualified plans. Benefits have been reduced for early commencement by 3% per year of commencement prior to age 65.

### **RETIREMENT**

In the case of retirement, the present value of benefits is determined in the same manner as termination. Mr. Smeltzer is eligible for early retirement benefits from the qualified Retirement Plan and Non-Qualified Pension Benefit Plan. Messrs. Franklin, Fox, Schuller and Luning are not currently eligible for retirement benefits.

### **DEATH**

Vested benefits under the Retirement Plan are payable to the participant's surviving spouse as a single life annuity upon the death of the participant. The benefit will be paid to the spouse as early as the deceased participant's earliest retirement age (age 55 with ten years of service or age 65). The benefit will be equal to 75% of the benefit calculated as if the participant had separated from service on the date of death (assumed to be December 31, 2016 in the tables on pages 63 through 65), survived to the earliest retirement age and retired with a qualified contingent annuity. Vested benefits under the Non-Qualified Pension Benefit Plan are payable to the participant's surviving spouse as a lump sum (or in certain cases transferred to the Company's Executive Deferral Plan) upon the death of the participant. The benefit will be equal to 75% of the benefit calculated as if the participant had separated from service on the date of death (assumed to be December 31, 2016 in the tables on pages 63 through 65), survived to the earliest retirement age and retired with a qualified contingent annuity. For each of the participants, the total present value of pension benefits payable upon death is less than the amount shown in the Pension Benefits Table. For purposes of the benefit calculations shown, spouses are assumed to be three years younger than the participant.

### **DISABILITY**

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





**Table of Contents**

Messrs. Franklin, Smeltzer, Fox, and Luning have each completed ten years of service. Therefore, for purposes of this present value calculation, these participants are assumed to accrue additional service and earnings until age 65, at which time pension payments are assumed to commence. Mr. Schuller has not completed ten years of service.

**TERMINATION EVENTS COMPENSATION**

The total estimated value of the payments that would be triggered by a termination following a change-in-control, a termination other than for cause without a change-in-control, retirement, death or disability for the named executive officers calculated assuming that the triggering event for the payments occurred on December 31, 2016 and assuming a value for our Common Stock as of December 31, 2016 for purposes of valuing the vesting of the equity incentives are set forth below:

**CHRISTOPHER H. FRANKLIN**

	<b>Change-in- Control</b>	<b>Termination</b>	<b>Retirement</b>	<b>Death</b>	<b>Disability</b>
<b>Payments and Benefits Upon Separation</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b><u>Triggered Payments and Benefits</u></b>					
Severance Payment	2,466,975	1,233,488			
Prorated current year bonus	566,738	862,858	862,858	862,858	862,858
Payment of accrued dividend equivalents	79,517		47,235	79,517	79,517
<b><u>Vesting of restricted shares</u></b>					
Vesting of restricted share units	826,160		389,084	826,160	826,160
Vesting of performance share units	1,646,138		772,098	1,646,138	1,646,138
Continuation of welfare benefits	86,530	20,901			
Outplacement services	45,000				

**Vested Retirement Benefits**

Incremental pension value above that is included in the

Pension Benefits Table	109,809	109,809			1,924,098
Present value of retiree medical benefits					
<b>Total</b>	<b>5,826,867</b>	<b>2,227,056</b>	<b>2,071,275</b>	<b>3,414,673</b>	<b>5,338,771</b>

**DAVID P. SMELTZER**

	<b>Change-in- Control</b>	<b>Termination</b>	<b>Retirement</b>	<b>Death</b>	<b>Disability</b>
<b>Payments and Benefits Upon Separation</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b><u>Triggered Payments and Benefits</u></b>					
Severance Payment	1,313,160	605,430			
Prorated current year bonus	214,830	275,197	275,197	275,197	275,197
Payment of accrued dividend equivalents	54,266		39,944	54,266	54,266

<b>Vesting of restricted shares</b>					
Vesting of restricted share units	430,563		267,115	430,563	430,563
Vesting of performance share units	853,046		526,578	853,046	853,046
Continuation of welfare benefits	65,220	15,754			
Outplacement services	22,500				

**Vested Retirement Benefits**

Incremental pension value above that is included in the

Pension Benefits Table			133,651		
Present value of retiree medical benefits	287,181	287,181	287,181		287,181
<b>Total</b>	<b>3,240,766</b>	<b>1,183,562</b>	<b>1,529,666</b>	<b>1,613,072</b>	<b>1,900,253</b>

**Table of Contents**

<b>RICHARD S. FOX</b>					
	<b>Change-in- Control</b>	<b>Termination</b>	<b>Retirement</b>	<b>Death</b>	<b>Disability</b>
<b>Payments and Benefits Upon Separation</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b><u>Triggered Payments and Benefits</u></b>					
Severance Payment	1,056,108	528,054			
Prorated current year bonus	187,374	245,928	245,928	245,928	245,928
Payment of accrued dividend equivalents	18,990		10,511	18,990	18,990
<b><u>Vesting of restricted shares</u></b>					
Vesting of restricted share units	209,018		93,031	209,018	209,018
Vesting of performance share units	416,850		184,920	416,850	416,850
Continuation of welfare benefits	67,490	16,302			
Outplacement services	22,500				
<b><u>Vested Retirement Benefits</u></b>					
Incremental pension value above that is included in the					
Pension Benefits Table			242,320		1,114,840
Present value of retiree medical benefits	210,416	210,416	210,416		210,416
<b>Total</b>	<b>2,188,746</b>	<b>1,000,700</b>	<b>987,126</b>	<b>890,786</b>	<b>2,216,042</b>

<b>DANIEL J. SCHULLER</b>					
	<b>Change-in- Control</b>	<b>Termination</b>	<b>Retirement</b>	<b>Death</b>	<b>Disability</b>
<b>Payments and Benefits Upon Separation</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b><u>Triggered Payments and Benefits</u></b>					
Severance Payment	1,106,700	553,350			
Prorated current year bonus	196,350	268,018	268,018	268,018	268,018
Payment of accrued dividend equivalents	16,224		7,440	16,224	16,224
<b><u>Vesting of restricted shares</u></b>					
Vesting of restricted share units	201,508		75,273	201,508	201,508
Vesting of performance share units	490,012		224,026	490,012	490,012
Continuation of welfare benefits	88,133	21,288			
Outplacement services	22,500				
<b><u>Vested Retirement Benefits</u></b>					
Incremental pension value above that is included in the					
Pension Benefits Table					
Present value of retiree medical benefits					
<b>Total</b>	<b>2,121,427</b>	<b>842,656</b>	<b>574,757</b>	<b>975,762</b>	<b>975,762</b>



**Table of Contents****CHRISTOPHER P. LUNING**

	<b>Change-in- Control</b>	<b>Termination</b>	<b>Retirement</b>	<b>Death</b>	<b>Disability</b>
<b>Payments and Benefits Upon Separation</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b><u>Triggered Payments and Benefits</u></b>					
Severance Payment	987,000	461,100			
Prorated current year bonus	143,100	180,306	180,306	180,306	180,306
Payment of accrued dividend equivalents	38,603		28,120	38,603	38,603
<b><u>Vesting of restricted shares</u></b>					
Vesting of restricted share units	312,416		189,815	312,416	312,416
Vesting of performance share units	619,154		374,267	619,154	619,154
Continuation of welfare benefits	88,133	21,288			
Outplacement services	22,500				
<b><u>Vested Retirement Benefits</u></b>					
Incremental pension value above that is included in the					
Pension Benefits Table	100,731	100,731			876,233
Present value of retiree medical benefits					
<b>Total</b>	<b>2,311,637</b>	<b>763,425</b>	<b>772,508</b>	<b>1,150,479</b>	<b>2,026,712</b>

The amounts shown in the tables above reflect the excess of the value of pension benefits under each of the triggering events over the value included in the Pension Benefits table on pages 55 and 57.

**Table of Contents**

**REPORT OF THE EXECUTIVE COMPENSATION COMMITTEE**

The purpose of the Compensation Committee is to assist the Board of Directors in its general oversight of the Company's compensation programs and the compensation of the Company's executives. The Compensation Committee Charter describes in greater detail the full responsibilities of the committee and is available on our website at [www.aquaamerica.com](http://www.aquaamerica.com).

The Executive Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis on pages 28 through 49 with management. Based on this review and discussion, the Executive Compensation 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 Proxy Statement for the 2017 Annual Meeting of Shareholders.

Respectfully submitted,

Lon R. Greenberg, Chairman

Carolyn J. Burke

Ellen T. Ruff

The foregoing Executive Compensation Committee report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 (the Securities Act) or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

**Table of Contents****OWNERSHIP OF COMMON STOCK**

The following table sets forth certain information as of March 7, 2017 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).

	<b>Sole Voting and/or Sole Investment Power (1)</b>	<b>Shared Voting and/or Investment Power</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Class Outstanding (2)</b>
<b>Certain Beneficial Owners</b> The Vanguard Group (3) 100 Vanguard Blvd. Malvern, PA 19355	15,718,495	116,226	15,834,721	8.92%
BlackRock, Inc. (4) 40 East 52nd Street New York, NY 10022	14,366,793		14,366,793	8.09%
State Street Corporation (5) One Lincoln Street Boston, MA 02111		10,595,357	10,595,357	5.97%
<b>Directors Nominees and Named Executive Officers</b>				
Carolyn J. Burke	1,765		1,765	*
Nicholas DeBenedictis	47,049		47,049	*
Richard S. Fox	11,019		11,019	*
Christopher H. Franklin	68,182		68,182	*
Richard H. Glanton	5,821		5,821	*
Lon R. Greenberg	18,152	13,500(6)	31,652	*
William P. Hankowsky	27,477		27,477	*
Wendell F. Holland	11,402		11,402	*
Christopher P. Luning	29,789		29,789	*
Ellen T. Ruff	22,652		22,652	*

Daniel J. Schuller	2,637		2,637	*
David P. Smeltzer	37,172	60,495(7)	97,667	*
<b>All Director Nominees and Named Executive Officers as a Group (13 persons)</b>				
	347,758(8)	102,005(9)	449,763	

\* less than one percent (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, 2017: 5,750 shares issuable to Mr. Fox.
- (2) Percentage of ownership for each person or group is based on 177,567,809 shares of Common Stock outstanding as of March 7, 2017 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 The Vanguard Group was obtained from the Schedule 13G/A filed by The Vanguard Group with the SEC on February 9, 2017.
- (4) The information for BlackRock, Inc. was obtained from the Schedule 13G/A filed by BlackRock, Inc. with the SEC on January 19, 2017.
- (5) The information for State Street Corporation was obtained from the Schedule 13G, filed by State Street Corporation with the SEC on February 9, 2017.



**Table of Contents**

- (6) The shareholdings indicated are owned jointly with Mr. Greenberg's wife.
- (7) The shareholdings indicated are owned jointly with Mr. Smeltzer's wife.
- (8) The shareholdings indicated include 5,750 shares issuable to such group upon exercise of outstanding stock options exercisable on or before May 31, 2017.
- (9) The shareholdings indicated include 73,995 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.

**Table of Contents**

**PROPOSAL NO. 4**

**ADVISORY VOTE ON THE FREQUENCY OF THE  
ADVISORY VOTE ON EXECUTIVE COMPENSATION**

In addition to providing shareholders with the opportunity to cast an advisory vote on the compensation paid to the Company's named executive officers ( "Say on Pay" vote), the Company is required under Section 14A of the Exchange Act to provide shareholders with an advisory vote on whether the frequency of the Say on Pay vote should be every 1, 2 or 3 years.

The Board believes that a frequency of every year for the advisory vote on our executive compensation programs is the optimal interval for conducting and responding to a "Say on Pay" vote. This interval between "Say on Pay" votes will provide the Executive Compensation Committee and the Board of Directors sufficient time to attempt to (a) evaluate the shareholders' vote, (b) determine the nature of any shareholders' concerns with the Company's executive compensation programs, (c) design and implement changes to attempt to address those concerns and (d) determine the effectiveness of those changes before the revised programs are resubmitted to shareholders for another "Say on Pay" vote.

The proxy card provides shareholders with the opportunity to choose among four options (holding the vote every 1, 2 or 3 years, or abstaining) and, therefore, shareholders will not be voting to approve or disapprove the Board's recommendation.

Although this advisory vote on the frequency of the "Say on Pay" vote is non-binding, the Board and the Executive Compensation Committee will take into account the outcome of the vote when considering the frequency of future advisory votes on the compensation paid to the Company's named executive officers.

***THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE OPTION OF ONE YEAR FOR FUTURE ADVISORY VOTES ON THE COMPANY'S EXECUTIVE COMPENSATION PROGRAMS.***



**Table of Contents**

**ADDITIONAL INFORMATION**

The Company will provide without charge, upon written request, a copy of the Company's Annual Report on Form 10-K for 2016 and 2016 Annual Report to Shareholders. Please direct your request to Investor Relations Department, Aqua America, Inc., 762 W. Lancaster Ave., Bryn Mawr, PA 19010. Copies of our Corporate Governance Guidelines, Committee Charters and 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 website, [www.aquaamerica.com](http://www.aquaamerica.com).

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

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

A Form 4 for Mr. DeBenedictis was filed late in connection with securities that were disposed of on January 20, 2016 and February 5, 2016. Based solely on the Company's review of the copies of such forms received by it during 2015 and 2016, the Company believes that all other filings required to be made by the reporting persons were made on a timely basis.

**OTHER MATTERS**

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

By Order of the Board of Directors,

CHRISTOPHER P. LUNING

*Secretary*

March 24, 2017

**Table of Contents****APPENDIX A***UTILITY COMPANIES INCLUDED IN THE UTILITY INDUSTRY DATABASE**USED BY THE EXECUTIVE COMPENSATION COMMITTEE S COMPENSATION CONSULTANT*

AES	NiSource
AGL Resources	NorthWestern Energy
Allele	NW Natural
Alliant Energy	OGE Energy
Ameren	Oncor Electric Delivery
American Electric Power	ONE Gas
Atmos Energy	Otter Tail
Avista	Pacific Gas & Electric
Berkshire Hathaway Energy	Peoples Natural Gas
Black Hills	Pinnacle West Capital
CenterPoint Energy	PNM Resources
CH Energy Group	Portland General Electric
Cleco	PPL
CMS Energy	Public Service Enterprise Group
Consolidated Edison	Puget Sound Energy
Dominion Resources	Questar
DTE Energy	SCANA
Duke Energy	Sempra Energy
Edison International	Southern Company Services
El Paso Electric Co.	Southwest Gas
Energy Future Holdings	TECO Energy
Energy	Tennessee Valley Authority
Exelon	UGI
FirstEnergy	UIL Holdings
Iberdrola USA	Unitil
Idaho Power	UNS Energy
Indianapolis Power & Light Company	Vectren Corporation
ITC Holdings Corp.	Westar Energy
LG&E and KU Energy Services	Wisconsin Energy
MDU Resources	Xcel Energy
NextEra Energy	

Table of Contents**APPENDIX B***AQUA AMERICA, INC. AND SUBSIDIARIES**RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**(UNAUDITED)*

	Quarter Ended		Year Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Net income (GAAP financial measure)	\$ 49,649	\$ 28,434	\$ 234,182	\$ 201,790
Plus: Joint venture impairment charge		32,975		32,975
Tax effect		(11,542)		(11,542)
Adjusted income (Non-GAAP financial measure)	\$ 49,649	\$ 49,867	\$ 234,182	\$ 223,223
Net income per common share (GAAP financial measure):				
Basic	\$ 0.28	\$ 0.16	\$ 1.32	\$ 1.14
Diluted	\$ 0.28	\$ 0.16	\$ 1.32	\$ 1.14
Adjusted income per common share (Non-GAAP financial measure):				
Basic	\$ 0.28	\$ 0.28	\$ 1.32	\$ 1.26
Diluted	\$ 0.28	\$ 0.28	\$ 1.32	\$ 1.26
Average common shares outstanding:				
Basic	177,365	176,480	177,273	176,788
Diluted	177,880	177,261	177,846	177,517

The Company is providing disclosure of the reconciliation of the non-GAAP financial measures to the most comparable GAAP financial measures. The Company believes that the non-GAAP financial measures provide investors the ability to measure the Company's financial operating performance by adjustment, which is more indicative of the Company's ongoing performance and is more comparable to measures reported by other companies. The Company further believes that the presentation of these non-GAAP financial measures is useful to investors as a more meaningful way to compare the Company's operating performance against its historical financial results.

This proxy statement includes a presentation of adjusted income and adjusted income per common share. Both of these amounts have been adjusted to exclude the effects of the Company's share of a noncash impairment charge recognized by a joint venture in the fourth quarter of 2015.

These financial measures are measures of the Company's operating performance that do not comply with U.S. generally accepted accounting principles (GAAP), and are thus considered to be non-GAAP financial measures under applicable Securities and Exchange Commission regulations. These non-GAAP financial measures are derived from our consolidated financial information, and should only be used as a supplement to our GAAP disclosures.



**Table of Contents**





**Table of Contents**