

AQUA AMERICA INC
Form 10-Q
November 05, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON DC 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2009

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

**Commission File Number 1-6659
AQUA AMERICA, INC.**

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1702594

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania

19010-3489

(Address of principal executive offices)

(Zip Code)

(610) 527-8000

(Registrant's telephone number, including area code)

(Former Name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12(b)-2 of the Exchange Act.:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 20, 2009.

136,270,613.

AQUA AMERICA, INC. AND SUBSIDIARIES
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AQUA AMERICA, INC. AND SUBSIDIARIES

Part 1 Financial Information

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)

(UNAUDITED)

	September 30, 2009	December 31, 2008
Assets		
Property, plant and equipment, at cost	\$ 4,057,062	\$ 3,848,419
Less: accumulated depreciation	924,710	851,036
Net property, plant and equipment	3,132,352	2,997,383
Current assets:		
Cash and cash equivalents	18,015	14,944
Accounts receivable and unbilled revenues, net	86,075	84,523
Inventory, materials and supplies	10,277	9,822
Prepayments and other current assets	10,515	11,752
Total current assets	124,882	121,041
Regulatory assets	233,711	234,980
Deferred charges and other assets, net	52,199	50,603
Funds restricted for construction activity	38,623	52,931
Goodwill	42,874	41,007
	\$ 3,624,641	\$ 3,497,945
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 136,942,380 and 136,053,467 in 2009 and 2008	\$ 68,470	\$ 68,026
Capital in excess of par value	638,416	623,407
Retained earnings	382,744	379,778
Treasury stock, 671,767 and 683,958 shares in 2009 and 2008	(12,392)	(12,751)
Accumulated other comprehensive income	118	(14)
Total Aqua America stockholders' equity	1,077,356	1,058,446
Noncontrolling interest	552	2,181
Total equity	1,077,908	1,060,627

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Long-term debt, excluding current portion	1,265,404	1,248,104
Commitments and contingencies		
Current liabilities:		
Current portion of long-term debt	54,848	7,297
Loans payable	76,546	80,589
Accounts payable	26,310	50,044
Accrued interest	16,203	16,070
Accrued taxes	15,110	15,362
Dividends payable	19,759	
Other accrued liabilities	21,291	23,809
Total current liabilities	230,067	193,171
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	391,851	355,166
Customers advances for construction	77,885	72,955
Regulatory liabilities	27,623	27,894
Other	117,146	120,333
Total deferred credits and other liabilities	614,505	576,348
Contributions in aid of construction	436,757	419,695
	\$ 3,624,641	\$ 3,497,945

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(UNAUDITED)

	Nine Months Ended September 30,	
	2009	2008
Operating revenues	\$ 502,646	\$ 467,132
Costs and expenses:		
Operations and maintenance	204,026	196,193
Depreciation	76,795	64,909
Amortization	8,848	4,000
Taxes other than income taxes	35,892	34,111
	325,561	299,213
Operating income	177,085	167,919
Other expense (income):		
Interest expense, net	50,693	51,207
Allowance for funds used during construction	(1,940)	(3,032)
Gain on sale of other assets	(375)	(1,085)
Income before income taxes	128,707	120,829
Provision for income taxes	51,013	48,576
Net income attributable to common shareholders	\$ 77,694	\$ 72,253
Net income attributable to common shareholders	\$ 77,694	\$ 72,253
Other comprehensive income, net of tax:		
Unrealized holding gain on investments	127	193
Reclassification adjustment for losses (gains) reported in net income	5	(209)
Comprehensive income	\$ 77,826	\$ 72,237
Net income per common share:		
Basic	\$ 0.57	\$ 0.54
Diluted	\$ 0.57	\$ 0.54
Average common shares outstanding during the period:		
Basic	135,673	134,013

Diluted	136,006	134,423
Cash dividends declared per common share	\$ 0.55	\$ 0.51

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(UNAUDITED)

	Three Months Ended September 30,	
	2009	2008
Operating revenues	\$ 180,826	\$ 177,098
Costs and expenses:		
Operations and maintenance	68,488	66,743
Depreciation	25,436	22,809
Amortization	3,029	1,815
Taxes other than income taxes	12,418	11,157
	109,371	102,524
Operating income	71,455	74,574
Other expense (income):		
Interest expense, net	17,256	17,014
Allowance for funds used during construction	(747)	(976)
Gain on sale of other assets	(162)	(532)
Income before income taxes	55,108	59,068
Provision for income taxes	21,638	23,688
Net income attributable to common shareholders	\$ 33,470	\$ 35,380
Net income attributable to common shareholders	\$ 33,470	\$ 35,380
Other comprehensive income, net of tax:		
Unrealized holding gain (loss) on investments	(142)	4
Reclassification adjustment for gains reported in net income		(209)
Comprehensive income	\$ 33,328	\$ 35,175
Net income per common share:		
Basic	\$ 0.25	\$ 0.26
Diluted	\$ 0.25	\$ 0.26
Average common shares outstanding during the period:		
Basic	135,975	134,932

Diluted		136,260	135,279
Cash dividends declared per common share		\$ 0.28	\$ 0.26

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	September 30, 2009	December 31, 2008	
Aqua America stockholders' equity:			
Common stock, \$.50 par value	\$ 68,470	\$ 68,026	
Capital in excess of par value	638,416	623,407	
Retained earnings	382,744	379,778	
Treasury stock	(12,392)	(12,751)	
Accumulated other comprehensive income	118	(14)	
Total Aqua America stockholders' equity	1,077,356	1,058,446	
Noncontrolling interest	552	2,181	
Total equity	1,077,908	1,060,627	
 Long-term debt:			
Long-term debt of subsidiaries (substantially secured by utility plant):			
Interest Rate Range	Maturity Date Range		
0.00% to 0.99%	2012 to 2034	6,868	3,606
1.00% to 1.99%	2009 to 2035	22,342	22,076
2.00% to 2.99%	2019 to 2027	13,072	13,683
3.00% to 3.99%	2010 to 2025	28,924	30,437
4.00% to 4.99%	2020 to 2041	195,921	196,150
5.00% to 5.99%	2011 to 2043	374,392	318,913
6.00% to 6.99%	2011 to 2036	121,889	121,552
7.00% to 7.99%	2012 to 2025	31,495	32,245
8.00% to 8.99%	2021 to 2025	34,611	34,806
9.00% to 9.99%	2010 to 2026	70,106	71,301
10.00% to 10.99%	2018	6,000	6,000
		905,620	850,769
Notes payable to bank under revolving credit agreement, variable rate, due May 2012		72,500	62,500
Unsecured notes payable:			
Notes of 4.87%, due 2010 through 2023		135,000	135,000
Notes ranging from 5.00% to 5.99%, due 2013 through 2037		207,132	207,132
		1,320,252	1,255,401
Current portion of long-term debt		54,848	7,297

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Long-term debt, excluding current portion	1,265,404	1,248,104
Total capitalization	\$ 2,343,312	\$ 2,308,731

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
(In thousands of dollars)
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2008	\$ 68,026	\$ 623,407	\$ 379,778	\$ (12,751)	\$ (14)	\$ 2,181	\$ 1,060,627
Net income			77,694			31	77,725
Purchase of subsidiary shares from noncontrolling interest						(1,660)	(1,660)
Unrealized holding gain on investments, net of income tax of \$69					127		127
Reclassification adjustment for losses reported in net income, net of income tax of \$2					5		5
Dividends paid			(54,969)				(54,969)
Dividends declared			(19,759)				(19,759)
Stock issued for acquisitions (164,052 shares)	82	2,827					2,909
Sale of stock (529,660 shares)	251	7,864		661			8,776
Repurchase of stock (15,037 shares)				(302)			(302)
Equity compensation plan (70,000 shares)	35	(35)					
Exercise of stock options (152,429 shares)	76	1,503					1,579
Stock-based compensation		2,787					2,787
Employee stock plan tax benefits		63					63
Balance at September 30, 2009	\$ 68,470	\$ 638,416	\$ 382,744	\$ (12,392)	\$ 118	\$ 552	\$ 1,077,908

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)
(UNAUDITED)

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income attributable to common shareholders	\$ 77,694	\$ 72,253
Adjustments to reconcile net income attributable to common shareholders to net cash flows from operating activities:		
Depreciation and amortization	85,643	68,909
Deferred income taxes	33,608	34,558
Provision for doubtful accounts	4,608	4,970
Stock-based compensation	2,714	2,942
Gain on sale of utility system	(1,009)	(4,118)
Gain on sale of other assets	(375)	(1,085)
Net increase in receivables, inventory and prepayments	(6,091)	(18,454)
Net (decrease) increase in payables, accrued interest, accrued taxes and other accrued liabilities	(9,332)	438
Other	(6,555)	(4,322)
Net cash flows from operating activities	180,905	156,091
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$1,940 and \$3,032	(194,886)	(188,063)
Acquisitions of utility systems and other, net	(1,523)	(14,225)
Proceeds from the sale of utility system and other assets	1,985	19,304
Additions to funds restricted for construction activity	(59,722)	(1,219)
Release of funds previously restricted for construction activity	74,016	17,572
Other	(3,504)	(44)
Net cash flows used in investing activities	(183,634)	(166,675)