

AQUA AMERICA INC
Form 10-Q
August 05, 2011

Table of Contents

**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 June 30, 2011

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 July 22, 2011:

138,405,123

AQUA AMERICA, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

	Page
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements:</u>	
<u>Consolidated Balance Sheets (unaudited) June 30, 2011 and December 31, 2010</u>	2
<u>Consolidated Statements of Income and Comprehensive Income (unaudited) - Six Months Ended June 30, 2011 and 2010</u>	3
<u>Consolidated Statements of Income and Comprehensive Income (unaudited) Three Months Ended June 30, 2011 and 2010</u>	4
<u>Consolidated Statements of Capitalization (unaudited) June 30, 2011 and December 31, 2010</u>	5
<u>Consolidated Statement of Equity (unaudited) Six Months Ended June 30, 2011</u>	6
<u>Consolidated Statements of Cash Flow (unaudited) Six Months Ended June 30, 2011 and 2010</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4. Controls and Procedures</u>	28
<u>Part II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	28
<u>Item 1A. Risk Factors</u>	30
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 5. Other Information</u>	32
<u>Item 6. Exhibits</u>	32
<u>Signatures</u>	33
<u>Exhibit Index</u>	34
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	

Exhibit 32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of ContentsPart 1 Financial Information
Item 1. Financial StatementsAQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	June 30, 2011	December 31, 2010
Assets		
Property, plant and equipment, at cost	\$ 4,616,437	\$ 4,488,195
Less: accumulated depreciation	1,060,585	1,020,395
Net property, plant and equipment	3,555,852	3,467,800
Current assets:		
Cash and cash equivalents	6,917	5,934
Accounts receivable and unbilled revenues, net	93,579	85,881
Income tax receivable	33,600	33,600
Deferred income taxes	20,764	
Inventory, materials and supplies	11,794	10,616
Prepayments and other current assets	11,375	10,846
Total current assets	178,029	146,877
Regulatory assets	226,875	217,376
Deferred charges and other assets, net	57,237	65,093
Funds restricted for construction activity	134,411	135,086
Goodwill	40,778	40,234
	\$ 4,193,182	\$ 4,072,466
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 139,105,938 and 138,449,039 in 2011 and 2010	\$ 69,552	\$ 69,223
Capital in excess of par value	676,888	664,369
Retained earnings	477,574	452,470
Treasury stock, at cost, 703,065 and 673,472 shares in 2011 and 2010	(12,980)	(12,307)
Accumulated other comprehensive income	522	499
Total Aqua America stockholders' equity	1,211,556	1,174,254
Noncontrolling interest	581	572
Total equity	1,212,137	1,174,826

Edgar Filing: AQUA AMERICA INC - Form 10-Q

Long-term debt, excluding current portion	1,468,525	1,531,976
Commitments and contingencies		
Current liabilities:		
Current portion of long-term debt	90,502	28,413
Loans payable	118,884	89,668
Accounts payable	42,708	45,382
Accrued interest	16,930	15,891
Accrued taxes	10,632	16,401
Other accrued liabilities	27,226	27,960
Total current liabilities	306,882	223,715
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	545,102	478,705
Customers advances for construction	66,143	66,966
Regulatory liabilities	39,489	35,921
Other	107,122	116,250
Total deferred credits and other liabilities	757,856	697,842
Contributions in aid of construction	447,782	444,107
	\$ 4,193,182	\$ 4,072,466

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

Table of Contents

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

	Six Months Ended June 30,	
	2011	2010
Operating revenues	\$ 359,553	\$ 338,961
Operating expenses:		
Operations and maintenance	137,762	136,911
Depreciation	54,871	53,002
Amortization	3,887	6,486
Taxes other than income taxes	27,211	25,803
	223,731	222,202
Operating income	135,822	116,759
Other expense (income):		
Interest expense, net	40,049	36,934
Allowance for funds used during construction	(3,909)	(3,002)
Gain on sale of other assets	(259)	(2,039)
Income before income taxes	99,941	84,866
Provision for income taxes	32,000	33,500
Net income attributable to common shareholders	\$ 67,941	\$ 51,366
Net income attributable to common shareholders	\$ 67,941	\$ 51,366
Other comprehensive income, net of tax:		
Unrealized holding gain on investments	96	902
Reclassification adjustment for gains reported in net income	(73)	(1,330)
Comprehensive income	\$ 67,964	\$ 50,938
Net income per common share:		
Basic	\$ 0.49	\$ 0.38
Diluted	\$ 0.49	\$ 0.38
Average common shares outstanding during the period:		
Basic	137,971	136,647

Diluted	138,518	136,960
Cash dividends declared per common share	\$ 0.31	\$ 0.29

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

Table of Contents

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

	Three Months Ended June 30,	
	2011	2010
Operating revenues	\$ 188,229	\$ 178,444
Operating expenses:		
Operations and maintenance	70,437	69,310
Depreciation	27,578	26,802
Amortization	1,931	3,314
Taxes other than income taxes	13,446	12,943
	113,392	112,369
Operating income	74,837	66,075
Other expense (income):		
Interest expense, net	20,106	18,504
Allowance for funds used during construction	(1,932)	(1,461)
Gain on sale of other assets	(138)	(110)
Income before income taxes	56,801	49,142
Provision for income taxes	19,211	19,287
Net income attributable to common shareholders	\$ 37,590	\$ 29,855
Net income attributable to common shareholders	\$ 37,590	\$ 29,855
Other comprehensive income, net of tax:		
Unrealized holding gain on investments	92	
Reclassification adjustment for gain reported in net income	(71)	
Comprehensive income	\$ 37,611	\$ 29,855
Net income per common share:		
Basic	\$ 0.27	\$ 0.22
Diluted	\$ 0.27	\$ 0.22
Average common shares outstanding during the period:		
Basic	138,114	136,785

Diluted	138,781	137,012
Cash dividends declared per common share	\$ 0.155	\$ 0.145

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

Table of Contents

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

	June 30, 2011	December 31, 2010		
Aqua America stockholders' equity:				
Common stock, \$.50 par value	\$ 69,552	\$ 69,223		
Capital in excess of par value	676,888	664,369		
Retained earnings	477,574	452,470		
Treasury stock, at cost	(12,980)	(12,307)		
Accumulated other comprehensive income	522	499		
 Total Aqua America stockholders' equity	 1,211,556	 1,174,254		
 Noncontrolling interest	 581	 572		
 Total equity	 1,212,137	 1,174,826		
 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	6,468	6,632
	1.00% to 1.99%	2011 to 2035	26,044	22,758
	2.00% to 2.99%	2019 to 2029	13,904	13,461
	3.00% to 3.99%	2016 to 2030	25,636	26,548
	4.00% to 4.99%	2020 to 2043	367,698	367,854
	5.00% to 5.99%	2012 to 2043	429,512	429,663
	6.00% to 6.99%	2011 to 2036	78,243	78,232
	7.00% to 7.99%	2012 to 2025	29,585	30,155
	8.00% to 8.99%	2021 to 2025	34,111	34,260
	9.00% to 9.99%	2011 to 2026	44,694	44,694
	10.40%	2018	6,000	6,000
			1,061,895	1,060,257
 Notes payable to bank under revolving credit agreement, variable rate, due May 2012			62,000	65,000
Unsecured notes payable:				
Notes ranging from 4.62% to 4.87%, due 2013 through 2024			193,000	193,000
Notes ranging from 5.01% to 5.95%, due 2014 through 2037			242,132	242,132

Edgar Filing: AQUA AMERICA INC - Form 10-Q

Current portion of long-term debt	1,559,027	1,560,389
	90,502	28,413
Long-term debt, excluding current portion	1,468,525	1,531,976
Total capitalization	\$ 2,680,662	\$ 2,706,802

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

Table of ContentsAQUA 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 (Loss)	Noncontrolling Interest	Total
Balance at December 31, 2010	\$ 69,223	\$ 664,369	\$ 452,470	\$ (12,307)	\$ 499	\$ 572	\$ 1,174,826
Net income			67,941			9	67,950
Unrealized holding gain on investments, net of income tax of \$52					96		96
Reclassification adjustment for gain reported in net income, net of income tax of \$39					(73)		(73)
Dividends paid			(42,813)				(42,813)
Sale of stock (299,441 shares)	143	5,920		325			6,388
Repurchase of stock (44,014 shares)				(998)			(998)
Equity compensation plan (14,716 shares)	7	(7)					
Exercise of stock options (357,703 shares)	179	5,388					5,567
Stock-based compensation		1,727	(24)				1,703
Employee stock plan tax benefits		(509)					(509)
Balance at June 30, 2011	\$ 69,552	\$ 676,888	\$ 477,574	\$ (12,980)	\$ 522	\$ 581	\$ 1,212,137

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

Table of Contents

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

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income attributable to common shareholders	\$ 67,941	\$ 51,366
Adjustments to reconcile net income attributable to common shareholders to net cash flows from operating activities:		
Depreciation and amortization	58,758	59,488
Deferred income taxes	33,216	4,495
Provision for doubtful accounts	2,202	2,233
Stock-based compensation	1,727	2,159
Gain on sale of utility system	(4,317)	
Gain on sale of other assets	(259)	(2,039)
Net increase in receivables, inventory and prepayments	(12,806)	(8,394)
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(996)	(6,684)
Other	(9,522)	(3,233)
Net cash flows from operating activities	135,944	99,391
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$3,909 and \$3,002	(142,844)	(140,767)
Acquisitions of utility systems and other, net	(6,533)	(1,621)
Additions to funds restricted for construction activity	(119)	(1,020)
Release of funds previously restricted for construction activity	794	4,216
Net proceeds from the sale of utility system and other assets	11,498	3,297