

AQUA AMERICA INC
Form 10-Q
May 07, 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 March 31, 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 April 24, 2009.

135,649,486.

AQUA AMERICA, INC. AND SUBSIDIARIES
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Part I Financial Information

Item 1. Financial Statements

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	March 31, 2009	December 31, 2008
Assets		
Property, plant and equipment, at cost	\$ 3,897,640	\$ 3,848,419
Less: accumulated depreciation	870,944	851,036
Net property, plant and equipment	3,026,696	2,997,383
Current assets:		
Cash and cash equivalents	16,744	14,944
Accounts receivable and unbilled revenues, net	77,280	84,523
Inventory, materials and supplies	9,358	9,822
Prepayments and other current assets	11,349	11,752
Total current assets	114,731	121,041
Regulatory assets	220,378	222,057
Deferred charges and other assets, net	50,711	50,603
Funds restricted for construction activity	28,611	52,931
Goodwill	40,842	41,007
	\$ 3,481,969	\$ 3,485,022
Liabilities and Stockholders Equity		
Aqua America stockholders equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 136,341,948 and 136,053,467 in 2009 and 2008	\$ 68,170	\$ 68,026
Capital in excess of par value	627,661	623,407
Retained earnings	379,866	379,778
Treasury stock, 692,462 and 683,958 shares in 2009 and 2008	(12,926)	(12,751)
Accumulated other comprehensive income	23	(14)
Total Aqua America stockholders equity	1,062,794	1,058,446
Noncontrolling interest	2,231	2,181
Total equity	1,065,025	1,060,627
Long-term debt, excluding current portion	1,226,232	1,248,104

Commitments and contingencies

Current liabilities:

Current portion of long-term debt	27,533	7,297
Loans payable	84,407	80,589
Accounts payable	27,157	50,044
Accrued interest	16,909	16,070
Accrued taxes	17,593	15,362
Other accrued liabilities	18,436	23,809
Total current liabilities	192,035	193,171

Deferred credits and other liabilities:

Deferred income taxes and investment tax credits	365,525	355,166
Customers' advances for construction	73,890	72,955
Regulatory liabilities	14,928	14,971
Other	118,388	120,333
Total deferred credits and other liabilities	572,731	563,425

Contributions in aid of construction	425,946	419,695
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	\$ 3,481,969	\$ 3,485,022
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See notes to consolidated financial statements beginning on page 7 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 March 31,	
	2009	2008
Operating revenues	\$ 154,487	\$ 139,283
Costs and expenses:		
Operations and maintenance	66,989	64,304
Depreciation	26,387	21,481
Amortization	2,755	1,173
Taxes other than income taxes	11,590	12,109
	107,721	99,067
Operating income	46,766	40,216
Other expense (income):		
Interest expense, net	16,628	17,130
Allowance for funds used during construction	(625)	(956)
Gain on sale of other assets	(133)	
Income before income taxes	30,896	24,042
Provision for income taxes	12,525	9,721
Net income attributable to common shareholders	\$ 18,371	\$ 14,321
Net income attributable to common shareholders	\$ 18,371	\$ 14,321
Other comprehensive income, net of tax:		
Unrealized holding gain on investments	37	
Comprehensive income	\$ 18,408	\$ 14,321
Net income per common share:		
Basic	\$ 0.14	\$ 0.11
Diluted	\$ 0.14	\$ 0.11
Average common shares outstanding during the period:		
Basic	135,406	133,415

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Diluted	135,876	133,970
Cash dividends declared per common share	\$ 0.135	\$ 0.125

See notes to consolidated financial statements beginning on page 7 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)

	March 31, 2009	December 31, 2008
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 68,170	\$ 68,026
Capital in excess of par value	627,661	623,407
Retained earnings	379,866	379,778
Treasury stock	(12,926)	(12,751)
Accumulated other comprehensive income	23	(14)
 Total Aqua America stockholders' equity	 1,062,794	 1,058,446
 Noncontrolling interest	 2,231	 2,181
 Total equity	 1,065,025	 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	3,530
1.00% to 1.99%	2009 to 2035	21,969
2.00% to 2.99%	2019 to 2027	13,501
3.00% to 3.99%	2010 to 2025	30,004
4.00% to 4.99%	2020 to 2041	196,093
5.00% to 5.99%	2011 to 2043	318,930
6.00% to 6.99%	2011 to 2036	121,557
7.00% to 7.99%	2012 to 2025	31,999
8.00% to 8.99%	2021 to 2025	34,743
9.00% to 9.99%	2010 to 2026	70,807
10.00% to 10.99%	2018 to 2018	6,000
		 849,133
		 850,769
Notes payable to bank under revolving credit agreement, variable rate, due May 2012		62,500
Unsecured notes payable:		
Notes of 4.87%, due 2010 through 2023		135,000
Notes ranging from 5.00% to 5.99%, due 2013 through 2037		207,132
		 1,253,765
Current portion of long-term debt		27,533
		 7,297

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Long-term debt, excluding current portion	1,226,232	1,248,104
Total capitalization	\$ 2,291,257	\$ 2,308,731

See notes to consolidated financial statements beginning on page 7 of this report.

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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			18,371			50	18,421
Unrealized holding gain on investments, net of income tax of \$20					37		37
Dividends paid			(18,283)				(18,283)
Sale of stock (162,815 shares)	78	2,676		125			2,879
Repurchase of stock (14,935 shares)				(300)			(300)
Equity compensation plan (45,500 shares)	23	(23)					
Exercise of stock options (86,597 shares)	43	757					800
Stock-based compensation		802					802
Employee stock plan tax benefits		42					42
Balance at March 31, 2009	\$ 68,170	\$ 627,661	\$ 379,866	\$ (12,926)	\$ 23	\$ 2,231	\$ 1,065,025

See notes to consolidated financial statements beginning on page 7 of this report.

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

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income attributable to common shareholders	\$ 18,371	\$ 14,321
Adjustments to reconcile net income attributable to common shareholders to net cash flows from operating activities:		
Depreciation and amortization	29,142	22,654
Deferred income taxes	8,391	1,672
Provision for doubtful accounts	1,494	1,788
Stock-based compensation	729	978
Gain on sale of other assets	(133)	
Net decrease in receivables, inventory and prepayments	6,298	4,367
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(1,414)	(877)
Other	(182)	(1,029)
Net cash flows from operating activities	62,696	43,874
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$625 and \$956	(62,135)	(56,467)
Acquisitions of utility systems and other, net	(290)	
Proceeds from the sale of other assets	246	16,947
Additions to funds restricted for construction activity	(29)	(556)
Release of funds previously restricted for construction activity	24,335	1,676
Other	(758)	(5)
Net cash flows used in investing activities	(38,631)	(38,405)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	581	1,769
Repayments of customers' advances	(473)	(850)
Net proceeds of short-term debt	3,817	26,909
Proceeds from long-term debt	303	56
Repayments of long-term debt	(1,920)	(13,508)
Change in cash overdraft position	(9,741)	(6,938)
Proceeds from exercised stock options	800	651
Stock-based compensation windfall tax benefits	72	82
Proceeds from issuing common stock	2,879	2,628
Repurchase of common stock	(300)	(283)
Dividends paid on common stock	(18,283)	(16,678)
Proceeds from net cash settlements of forward equity sale agreement		2,662

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Net cash flows used in financing activities	(22,265)	(3,500)
Net increase in cash and cash equivalents	1,800	1,969
Cash and cash equivalents at beginning of period	14,944	14,540
Cash and cash equivalents at end of period	\$ 16,744	\$ 16,509

See notes to consolidated financial statements beginning on page 7 of this report.

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

Note 1 Basis of Presentation

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. and subsidiaries (the Company) at March 31, 2009, the consolidated statements of income and comprehensive income for the three months ended March 31, 2009 and 2008, the consolidated statements of cash flow for the three months ended March 31, 2009 and 2008, and the consolidated statement of equity for the three months ended March 31, 2009, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in equity, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. Effective January 1, 2009, we adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, which was retrospectively applied, and requires a noncontrolling interest to be separately presented as a component of stockholders' equity on the Consolidated Balance Sheet and Statement of Equity. See Note 10, *Recent Accounting Pronouncements*, for further information. Certain prior year amounts have been changed to conform with current year's presentation.

Note 2 Goodwill

The following table summarizes the changes in the Company's goodwill, by business segment:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2008	\$ 36,887	\$ 4,120	\$ 41,007
Reclassifications to utility plant acquisition adjustment	(1,353)		(1,353)
Other	1,188		1,188
Balance at March 31, 2009	\$ 36,722	\$ 4,120	\$ 40,842

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 3 Dispositions

The City of Fort Wayne, Indiana (the City) has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company's operating subsidiaries that the Company acquired in connection with the AquaSource acquisition in 2003. The Company had challenged whether the City was following the correct legal procedures in connection with the City's condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of the Company's utility system at a preliminary price based on the City's valuation. The Company has filed an appeal with a local Circuit Court challenging the Board of Public Works valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of the Company's system and the payment of \$16,911 based on the City's valuation of this portion of the system. In January 2008, the Company reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically states that the final valuation of the portion of the Company's system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, the Company turned over the system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the Company's northern system to the City. The proceeds received are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. The Company expects a ruling from the judge in the second half of 2009. Depending upon the outcome of the legal proceeding in the Circuit Court the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the system relinquished represents approximately 0.5% of the Company's total assets.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 4 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of diluted net income per common share. The dilutive effect of stock options is calculated using the treasury stock method