

AQUA AMERICA INC
Form 10-Q
November 06, 2014
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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, 2014

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
(State or other jurisdiction of
incorporation or organization)

23-1702594
(I.R.S. Employer
Identification No.)

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania
(Address of principal executive offices)

19010 -3489
(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.)

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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 (do not check if a smaller reporting company)	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 24, 2014: 176,633,848

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AQUA AMERICA, INC. AND SUBSIDIARIES

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except per share amounts)

(UNAUDITED)

	September 30, 2014	December 31, 2013
Assets		
Property, plant and equipment, at cost	\$ 5,594,967	\$ 5,350,868
Less: accumulated depreciation	1,281,152	1,212,300
Net property, plant and equipment	4,313,815	4,138,568
Current assets:		
Cash and cash equivalents	4,843	5,058
Accounts receivable and unbilled revenues, net	105,744	94,704
Deferred income taxes	42,606	40,038
Inventory, materials and supplies	12,583	11,353
Prepayments and other current assets	11,317	18,954
Assets of discontinued operations held for sale	30,428	30,747
Total current assets	207,521	200,854
Regulatory assets	658,619	585,140
Deferred charges and other assets, net	52,231	50,290
Investment in joint venture	44,650	48,695
Funds restricted for construction activity	47	47
Goodwill	30,298	28,223
Total assets	\$ 5,307,181	\$ 5,051,817
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 178,462,611 and 177,928,922 as of September 30, 2014 and December 31, 2013	\$ 89,231	\$ 88,964
Capital in excess of par value	753,814	743,335
Retained earnings	812,412	729,272
Treasury stock, at cost, 1,763,171 and 1,178,323 shares as of September 30, 2014 and December 31, 2013	(41,055)	(27,082)
Accumulated other comprehensive income	731	346
Total Aqua America stockholders' equity	1,615,133	1,534,835
Noncontrolling interest	227	208
Total equity	1,615,360	1,535,043
Long-term debt, excluding current portion	1,560,426	1,468,583
Commitments and contingencies (See Note 13)	-	-

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Current liabilities:		
Current portion of long-term debt	86,580	86,288
Loans payable	6,997	36,740
Accounts payable	48,864	65,815
Accrued interest	20,911	13,615
Accrued taxes	11,147	14,176
Other accrued liabilities	32,224	33,596
Liabilities of discontinued operations held for sale	28,669	29,649
Total current liabilities	235,392	279,879
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	972,082	866,211
Customers' advances for construction	77,215	73,892
Regulatory liabilities	279,666	281,014
Other	71,116	81,552
Total deferred credits and other liabilities	1,400,079	1,302,669
Contributions in aid of construction	495,924	465,643
Total liabilities and equity	\$ 5,307,181	\$ 5,051,817

See notes to consolidated financial statements beginning on page 9 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME

(In thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended September 30,	
	2014	2013
Operating revenues	\$ 210,535	\$ 202,320
Operating expenses:		
Operations and maintenance	72,374	71,631
Depreciation	29,482	29,980
Amortization	806	1,185
Taxes other than income taxes	12,815	13,384
Total operating expenses	115,477	116,180
Operating income	95,058	86,140
Other expense (income):		
Interest expense, net	18,990	19,350
Allowance for funds used during construction	(1,195)	(426)
Gain on sale of other assets	(75)	(138)
Equity loss (earnings) in joint venture	736	(78)
Income from continuing operations before income taxes	76,602	67,432
Provision for income taxes	8,891	4,683
Income from continuing operations	67,711	62,749
Discontinued operations:		
Income from discontinued operations before income taxes	472	1,433
Provision for income taxes	187	565
Income from discontinued operations	285	868
Net income attributable to common shareholders	\$ 67,996	\$ 63,617
Income from continuing operations per share:		
Basic	\$ 0.38	\$ 0.36
Diluted	\$ 0.38	\$ 0.35
Income from discontinued operations per share:		
Basic	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ 0.00

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Net income per common share:

Basic	\$ 0.38	\$ 0.36
Diluted	\$ 0.38	\$ 0.36

Average common shares outstanding during the period:

Basic	176,900	176,483
Diluted	177,908	177,575

Cash dividends declared per common share	\$ 0.165	\$ -
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See notes to consolidated financial statements beginning on page 9 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME

(In thousands, except per share amounts)

(UNAUDITED)

	Nine Months Ended September 30, 2014	2013
Operating revenues	\$ 588,514	\$ 574,815
Operating expenses:		
Operations and maintenance	214,435	209,837
Depreciation	91,689	88,336
Amortization	2,685	3,930
Taxes other than income taxes	37,943	39,884
	346,752	341,987
Operating income	241,762	232,828
Other expense (income):		
Interest expense, net	57,393	57,833
Allowance for funds used during construction	(3,299)	(1,468)
Loss (gain) on sale of other assets	133	(121)

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Equity loss in joint venture		2,673		1,732
Income from continuing operations before income taxes		184,862		174,852
Provision for income taxes		19,932		18,235
Income from continuing operations		164,930		156,617
Discontinued operations:				
Income from discontinued operations before income taxes		2,497		11,301
Provision for income taxes		1,003		4,150
Income from discontinued operations		1,494		7,151
Net income attributable to common shareholders	\$	166,424	\$	163,768
Income from continuing operations per share:				
Basic	\$	0.93	\$	0.89
Diluted	\$	0.93	\$	0.89
Income from discontinued operations per share:				
Basic	\$	0.01	\$	0.04
Diluted	\$	0.01	\$	0.04
Net income per common share:				
Basic	\$	0.94	\$	0.93
Diluted	\$	0.94	\$	0.93
Average common shares outstanding during the period:				
Basic		176,933		175,964
Diluted		177,872		176,732
Cash dividends declared per common share	\$	0.469	\$	0.432

See notes to consolidated financial statements beginning on

page 9 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of dollars)

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income attributable to common shareholders	\$ 67,996	\$ 63,617	\$ 166,424	\$ 163,768
Other comprehensive income, net of tax:				
Unrealized holding (loss) gain on investments, net of tax (benefit) expense of \$(33) and \$32 for the three months and \$73 and \$9 for the nine months ended, September 30, respectively	(62)	60	136	18
Reclassification adjustment for loss reported in net income, net of tax benefit of \$134 and \$49 for the nine months ended, September 30, respectively (1)	-	-	249	90
Comprehensive income	\$ 67,934	\$ 63,677	\$ 166,809	\$ 163,876

(1) Amount of pre-tax loss of \$383 and \$139 reclassified from accumulated other comprehensive income to loss on sale of other assets on the consolidated statements of net income for the nine months ended September 30, 2014 and 2013, respectively.

See notes to consolidated financial statements beginning on page 9 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, 2014	December 31, 2013
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 89,231	\$ 88,964
Capital in excess of par value	753,814	743,335
Retained earnings	812,412	729,272
Treasury stock, at cost	(41,055)	(27,082)
Accumulated other comprehensive income	731	346
Total Aqua America stockholders' equity	1,615,133	1,534,835
Noncontrolling interest	227	208
Total equity	1,615,360	1,535,043
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range	Maturity Date Range	
0.00% to 0.99%	2023 to 2033	5,653
1.00% to 1.99%	2016 to 2035	14,681
2.00% to 2.99%	2024 to 2033	24,653
3.00% to 3.99%	2016 to 2047	168,206
4.00% to 4.99%	2020 to 2048	444,332
5.00% to 5.99%	2015 to 2043	256,205
6.00% to 6.99%	2015 to 2036	64,939
7.00% to 7.99%	2022 to 2027	34,583
8.00% to 8.99%	2021 to 2025	19,006
9.00% to 9.99%	2018 to 2026	27,800
10.00% to 10.99%	2018	6,000
		1,066,058
Notes payable to bank under revolving credit agreement, variable rate, due March 2017	109,000	-
Unsecured notes payable:		
Bank Note at 1.921% due September 2017	50,000	-
Notes at 3.57% due 2027	50,000	50,000

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Notes ranging from 4.62% to 4.87%, due 2016 through 2024	144,400	171,400
Notes ranging from 5.01% to 5.95%, due 2014 through 2037	227,548	232,132
	1,647,006	1,554,871
Current portion of long-term debt	86,580	86,288
Long-term debt, excluding current portion	1,560,426	1,468,583
Total capitalization	\$ 3,175,786	\$ 3,003,626

See notes to consolidated financial statements beginning on page 9 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, 2013	\$ 88,964	\$ 743,335	\$ 729,272	\$ (27,082)	\$ 346	\$ 208	\$ 1,535,043
Net income	-	-	166,424	-	-	19	166,443
Other comprehensive income, net of income tax of \$207	-	-	-	-	385	-	385
Dividends	-	-	(82,953)	-	-	-	(82,953)
Repurchase of stock (584,853 shares)	-	-	-	(13,973)	-	-	(13,973)
Equity compensation plan (212,920 shares)	107	(107)	-	-	-	-	-
Exercise of stock options (320,769 shares)	160	4,710	-	-	-	-	4,870
Stock-based compensation	-	5,137	(331)	-	-	-	4,806
Employee stock plan tax benefits	-	1,319	-	-	-	-	1,319
Other	-	(580)	-	-	-	-	(580)
Balance At September 30, 2014	\$ 89,231	\$ 753,814	\$ 812,412	\$ (41,055)	\$ 731	\$ 227	\$ 1,615,360

See notes to consolidated financial statements beginning on page 9 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,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 166,424	\$ 163,768
Income from discontinued operations	1,494	7,151
Income from continuing operations	164,930	156,617
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	94,374	92,266
Deferred income taxes	15,055	19,852
Provision for doubtful accounts	4,648	3,337
Stock-based compensation	5,145	4,043
Gain on sale of utility system	-	(1,025)
Loss (gain) on sale of other assets	133	(121)
Net increase in receivables, inventory and prepayments	(13,928)	(1,322)
Net increase in payables, accrued interest, accrued taxes and other accrued liabilities	16,241	1,771
Other	(11,023)	2,287
Operating cash flows from continuing operations	275,575	277,705
Operating cash flows (used in) from discontinued operations, net	(1,142)	1,893
Net cash flows from operating activities	274,433	279,598
Cash flows from investing activities:		
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of \$1,033 and \$1,352	(220,739)	(215,407)
Acquisitions of utility systems and other, net	(11,677)	(14,404)
Additions to funds restricted for construction activity	-	(6)
Release of funds previously restricted for construction activity	-	11,952
Net proceeds from the sale of utility system and other assets	386	3,187
Investment in joint venture	-	(9,800)
Other	513	(439)
Investing cash flows used in continuing operations	(231,517)	(224,917)
Investing cash flows (used in) from discontinued operations, net	(77)	50,421
Net cash flows used in investing activities	(231,594)	(174,496)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	4,510	3,523
Repayments of customers' advances	(2,107)	(1,938)
Net (repayments) proceeds of short-term debt	(29,743)	29,403

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Proceeds from long-term debt	221,058	188,321
Repayments of long-term debt	(128,395)	(258,295)
Change in cash overdraft position	(16,883)	(11,881)
Proceeds from issuing common stock	-	10,478
Proceeds from exercised stock options	4,870	24,941
Stock-based compensation windfall tax benefits	1,235	-
Repurchase of common stock	(13,973)	(12,815)
Dividends paid on common stock	(82,953)	(76,028)
Other	(580)	-
Financing cash flows used in continuing operations	(42,961)	(104,291)
Financing cash flows (used in) from discontinued operations, net	(93)	61
Net cash flows used in financing activities	(43,054)	(104,230)
Net (decrease) increase in cash and cash equivalents	(215)	872
Cash and cash equivalents at beginning of period	5,058	5,521
Cash and cash equivalents at end of period	\$ 4,843	\$ 6,393

See notes to consolidated financial statements beginning on page 9 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 September 30, 2014, the consolidated statements of net income and comprehensive income for the three and nine months ended September 30, 2014 and 2013, the consolidated statements of cash flow for the nine months ended September 30, 2014 and 2013, and the consolidated statement of equity for the nine months ended September 30, 2014 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, 2013. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. The December 31, 2013 consolidated balance sheet data pres