

AQUA AMERICA INC
Form 10-Q
August 03, 2017
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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 June 30, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 24, 2017: 177,651,543

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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)

	June 30, 2017	December 31, 2016
Assets		
Property, plant and equipment, at cost	\$ 6,717,832	\$ 6,509,117
Less: accumulated depreciation	1,558,681	1,507,502
Net property, plant and equipment	5,159,151	5,001,615
Current assets:		
Cash and cash equivalents	7,811	3,763
Accounts receivable and unbilled revenues, net	98,890	97,394
Inventory, materials and supplies	16,838	12,961
Prepayments and other current assets	13,009	12,804
Assets held for sale	1,543	1,728
Total current assets	138,091	128,650
Regulatory assets	1,003,808	948,647
Deferred charges and other assets	33,597	30,845
Investment in joint venture	6,786	7,026
Goodwill	42,266	42,208
Total assets	\$ 6,383,699	\$ 6,158,991
Liabilities and Equity		
Stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 180,635,368 and 180,311,345 as of June 30, 2017 and December 31, 2016	\$ 90,317	\$ 90,155
Capital in excess of par value	802,799	797,513
Retained earnings	1,075,856	1,032,844
Treasury stock, at cost, 2,984,264 and 2,916,969 shares as of June 30, 2017 and December 31, 2016	(73,206)	(71,113)
Accumulated other comprehensive income	764	669
Total stockholders' equity	1,896,530	1,850,068
Long-term debt, excluding current portion	1,844,342	1,759,962
Less: debt issuance costs	21,761	22,357
Long-term debt, excluding current portion, net of debt issuance costs	1,822,581	1,737,605
Commitments and contingencies (See Note 13)		

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Current liabilities:		
Current portion of long-term debt	143,567	150,671
Loans payable	67,456	6,535
Accounts payable	46,376	59,872
Accrued interest	17,007	18,367
Accrued taxes	18,858	25,607
Other accrued liabilities	39,283	40,484
Total current liabilities	332,547	301,536
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	1,339,583	1,269,253
Customers' advances for construction	91,131	91,843
Regulatory liabilities	244,613	250,635
Other	105,051	115,583
Total deferred credits and other liabilities	1,780,378	1,727,314
Contributions in aid of construction	551,663	542,468
Total liabilities and equity	\$ 6,383,699	\$ 6,158,991

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 June 30,	
	2017	2016
Operating revenues	\$ 203,418	\$ 203,876
Operating expenses:		
Operations and maintenance	70,853	73,994
Depreciation	33,407	31,619
Amortization	127	528
Taxes other than income taxes	14,419	14,242
Total operating expenses	118,806	120,383
Operating income	84,612	83,493
Other expense (income):		
Interest expense, net	21,387	20,115
Allowance for funds used during construction	(3,463)	(1,871)
Gain on sale of other assets	(10)	(121)
Equity loss in joint venture	161	229
Income before income taxes	66,537	65,141
Provision for income taxes	5,569	5,515
Net income	\$ 60,968	\$ 59,626
Net income per common share:		
Basic	\$ 0.34	\$ 0.34
Diluted	\$ 0.34	\$ 0.33
Average common shares outstanding during the period:		
Basic	177,609	177,288
Diluted	178,045	178,084
Cash dividends declared per common share	\$ 0.1913	\$ 0.178

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)

	Six Months Ended June 30,	
	2017	2016
Operating revenues	\$ 391,205	\$ 396,483
Operating expenses:		
Operations and maintenance	139,981	147,535
Depreciation	67,244	63,764
Amortization	316	978
Taxes other than income taxes	29,156	28,382
Total operating expenses	236,697	240,659
Operating income	154,508	155,824
Other expense (income):		
Interest expense, net	42,713	39,968
Allowance for funds used during construction	(6,656)	(4,179)
Gain on sale of other assets	(279)	(328)
Equity loss in joint venture	191	478
Income before income taxes	118,539	119,885
Provision for income taxes	8,499	8,522
Net income	\$ 110,040	\$ 111,363
Net income per common share:		
Basic	\$ 0.62	\$ 0.63
Diluted	\$ 0.62	\$ 0.63
Average common shares outstanding during the period:		
Basic	177,545	177,196
Diluted	178,042	177,920
Cash dividends declared per common share	\$ 0.3826	\$ 0.356

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 60,968	\$ 59,626	\$ 110,040	\$ 111,363
Other comprehensive income, net of tax:				
Unrealized holding gain on investments, net of tax expense of \$20 and \$7 for the three months, and \$51 and \$3 for the six months ended June 30, 2017 and 2016, respectively	37	12	95	6
Reclassification of gain on sale of investment to net income, net of tax of \$30 for the six months ended June 30, 2016 (1)	-	-	-	(57)
Comprehensive income	\$ 61,005	\$ 59,638	\$ 110,135	\$ 111,312

(1) Amount of pre-tax gain of \$87 reclassified from accumulated other comprehensive income to gain on sale of other assets on the consolidated statements of net income for the six months ended June 30, 2016.

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)

	June 30, 2017	December 31, 2016
Stockholders' equity:		
Common stock, \$.50 par value	\$ 90,317	\$ 90,155
Capital in excess of par value	802,799	797,513
Retained earnings	1,075,856	1,032,844
Treasury stock, at cost	(73,206)	(71,113)
Accumulated other comprehensive income	764	669
Total stockholders' equity	1,896,530	1,850,068
Long-term debt of subsidiaries (substantially collateralized by utility plant):		
Interest Rate Range	Maturity Date Range	
0.00% to 0.99%	2023 to 2033	4,339
1.00% to 1.99%	2019 to 2035	13,664
2.00% to 2.99%	2024 to 2033	20,120
3.00% to 3.99%	2019 to 2056	430,600
4.00% to 4.99%	2020 to 2054	422,896
5.00% to 5.99%	2019 to 2043	205,828
6.00% to 6.99%	2017 to 2036	52,995
7.00% to 7.99%	2022 to 2027	32,706
8.00% to 8.99%	2021 to 2025	6,334
9.00% to 9.99%	2018 to 2026	26,400
10.00% to 10.99%	2018	6,000
		1,221,882
Notes payable to bank under revolving credit agreement, variable rate, due 2021	135,000	25,000
Unsecured notes payable:		
Bank notes at 1.921% and 1.975% due 2017 and 2018	100,000	100,000
Notes ranging from 3.01% to 3.59% due 2027 through 2041	245,000	245,000

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Notes ranging from 4.62% to 4.87%, due 2017 through 2024	133,600	133,600
Notes ranging from 5.20% to 5.95%, due 2018 through 2037	152,427	159,809
Total long-term debt	1,987,909	1,910,633
Current portion of long-term debt	143,567	150,671
Long-term debt, excluding current portion	1,844,342	1,759,962
Less: debt issuance costs	21,761	22,357
Long-term debt, excluding current portion, net of debt issuance costs	1,822,581	1,737,605
Total capitalization	\$ 3,719,111	\$ 3,587,673

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	Total
Balance at December 31, 2016	\$ 90,155	\$ 797,513	\$ 1,032,844	\$ (71,113)	\$ 669	\$ 1,850,068
Net income	-	-	110,040	-	-	110,040
Other comprehensive income, net of income tax of \$51	-	-	-	-	95	95
Dividends	-	-	(67,920)	-	-	(67,920)
Sale of stock (23,194 shares)	12	703	-	-	-	715
Repurchase of stock (67,295 shares)	-	-	-	(2,093)	-	(2,093)
Equity compensation plan (160,279 shares)	80	(80)	-	-	-	-
Exercise of stock options (140,550 shares)	70	2,257	-	-	-	2,327
Stock-based compensation	-	2,810	(90)	-	-	2,720
Cumulative effect of change in accounting principle - windfall tax benefit	-	-	982	-	-	982
Other	-	(404)	-	-	-	(404)
Balance at June 30, 2017	\$ 90,317	\$ 802,799	\$ 1,075,856	\$ (73,206)	\$ 764	\$ 1,896,530

Refer to Note 15 - Recent Accounting Pronouncements for a discussion of the cumulative effect of change in accounting principle - windfall tax benefit

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)

	Six Months Ended	
	June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 110,040	\$ 111,363
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	67,560	64,742
Deferred income taxes	6,299	5,051
Provision for doubtful accounts	2,052	2,101
Stock-based compensation	2,810	2,200
Loss (gain) on sale of utility system and market-based business unit	324	(1,782)
Gain on sale of other assets	(279)	(328)
Net change in receivables, inventory and prepayments	(7,417)	(4,130)
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	(10,969)	(2,695)
Postretirement benefit contributions	(15,421)	(6,787)
Other	2,262	7,923
Net cash flows from operating activities	157,261	177,658
Cash flows from investing activities:		
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of \$1,543 and \$1,097	(208,472)	(168,587)
Acquisitions of utility systems and other, net	(5,765)	(5,626)
Net proceeds from the sale of utility system and other assets	1,102	6,439
Other	(144)	(45)
Net cash flows used in investing activities	(213,279)	(167,819)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	3,629	3,205
Repayments of customers' advances	(1,774)	(1,282)
Net proceeds of short-term debt	60,921	9,518
Proceeds from long-term debt	222,780	169,297
Repayments of long-term debt	(145,499)	(112,650)
Change in cash overdraft position	(12,616)	(15,338)
Proceeds from issuing common stock	715	670
Proceeds from exercised stock options	2,327	3,569
Stock-based compensation windfall tax benefits	-	1,198

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Repurchase of common stock	(2,093)	(2,859)
Dividends paid on common stock	(67,920)	(63,071)
Other	(404)	(402)
Net cash flows from (used in) financing activities	60,066	(8,145)
Net change in cash and cash equivalents	4,048	1,694
Cash and cash equivalents at beginning of period	3,763	3,229
Cash and cash equivalents at end of period	\$ 7,811	\$ 4,923
Non-cash investing activities:		
Property, plant and equipment additions purchased at the period end, but not yet paid for	\$ 32,770	\$ 20,863
Non-cash customer advances and contributions in aid of construction	11,488	11,199

Refer to Note 3 - Acquisitions for a description of non-cash activities

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 June 30, 2017, the consolidated statements of net income and comprehensive income for the three and six months ended June 30, 2017 and 2016 the consolidated statements of cash flow for the six months ended June 30, 2017 and 2016, and the consolidated statement of equity for the six months ended June 30, 2017 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present a fair statement of our consolidated financial position, consolidated changes in equity, consolidated results of operations, and 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, 2016. 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, 2016 consolidated balance sheet data presented herein was derived from the Company’s