

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1996

Commission File Number 1-6659

PHILADELPHIA SUBURBAN CORPORATION

(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 Lancaster Avenue, Bryn Mawr, Pennsylvania ----- (Address of principal executive offices) | 19010 ----- (Zip Code) |
| Registrant's telephone number, including area code: (610)-527-8000 ----- | |

Indicate by check mark whether the registrant (1) 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 X No
 ----- -----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 1996.

12,362,710

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

| | March 31, 1996 ----- (Unaudited) | December 31, 1995 ----- (Audited) |
|----------------------------------------|-------------------------------------------|--------------------------------------------|
| Property, plant and equipment, at cost | \$531,853 | \$529,364 |
| Less accumulated depreciation | 94,801 ----- | 92,459 ----- |
| Net property, plant and equipment | 437,052 | 436,905 |
| Current assets | | |
| Cash | 1,766 | 2,387 |
| Accounts receivable, net | 20,564 | 22,112 |
| Inventory, materials and supplies | 1,977 | 1,878 |

| | | |
|-----------------------------------------------------------------------------------------------|-----------|-----------|
| Prepayments and other current assets | 379 | 537 |
| | ----- | ----- |
| Total current assets | 24,686 | 26,914 |
| Regulatory assets | 48,723 | 48,757 |
| Deferred charges and other assets, net | 5,947 | 5,475 |
| | ----- | ----- |
| | \$516,408 | \$518,051 |
| | ===== | ===== |
| Common stockholders' equity | \$160,864 | \$156,976 |
| Preferred stock of subsidiary with mandatory redemption requirements | 4,214 | 5,643 |
| Long-term debt, excluding current portion | 172,985 | 175,395 |
| Commitments | - | - |
| Current liabilities | | |
| Current portion of preferred stock of subsidiary with mandatory redemption requirements | 1,429 | 1,500 |
| Current portion of long-term debt | 14,440 | 13,590 |
| Loans payable | 5,285 | 6,455 |
| Accounts payable | 6,682 | 9,694 |
| Accrued interest | 4,402 | 3,601 |
| Other accrued liabilities | 17,709 | 15,380 |
| | ----- | ----- |
| Total current liabilities | 49,947 | 50,220 |
| Deferred credits and other liabilities | | |
| Deferred income taxes and investment credits | 71,592 | 70,980 |
| Customers' advances for construction | 24,539 | 25,880 |
| Other non-current liabilities | 9,068 | 9,762 |
| | ----- | ----- |
| Total deferred credits and other liabilities | 105,199 | 106,622 |
| Contributions in aid of construction | 23,199 | 23,195 |
| | ----- | ----- |
| | \$516,408 | \$518,051 |
| | ===== | ===== |

See notes to consolidated financial statements on page 4 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

(UNAUDITED)

| | Three Months Ended March 31, | |
|-------------------------------|---------------------------------|----------|
| | 1996 | 1995 |
| | ---- | ---- |
| Earned revenues | \$29,290 | \$25,712 |
| Costs and expenses | | |
| Operating expenses | 13,070 | 11,766 |
| Depreciation | 3,255 | 2,770 |
| Amortization | 69 | (17) |
| Taxes other than income taxes | 2,317 | 1,973 |
| | ----- | ----- |
| | 18,711 | 16,492 |

| | | |
|---------------------------------------------------------------------------|----------|----------|
| | ----- | ----- |
| Operating income | 10,579 | 9,220 |
| Interest and debt expenses | 3,783 | 3,396 |
| Dividends on preferred stock | 127 | 167 |
| Allowance for funds used during construction | (32) | (40) |
| | ----- | ----- |
| Income before income taxes | 6,701 | 5,697 |
| Provision for income taxes | 2,733 | 2,382 |
| | ----- | ----- |
| Net income | \$ 3,968 | \$ 3,315 |
| | ===== | ===== |
| Net income per share | \$.32 | \$.28 |
| | ===== | ===== |
| Average common and common equivalent shares outstanding during the period | 12,376 | 11,781 |
| | ===== | ===== |

See notes to consolidated financial statements on page 4 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)

(UNAUDITED)

| | Three Months Ended March 31, | |
|------------------------------------------------------------------------------------------------------------------|---------------------------------|----------|
| | 1996 | 1995 |
| | ---- | ---- |
| Cash flows from operating activities: | | |
| Net income | \$ 3,968 | \$ 3,315 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 3,324 | 2,753 |
| Deferred taxes, net of taxes on customers' advances | (54) | 140 |
| Net decrease in receivables, inventory and prepayments | 1,696 | 2,485 |
| Net decrease in payables and other accrued liabilities | (643) | (2,337) |
| Net increase in accrued interest | 802 | 455 |
| Other | (79) | 368 |
| | ----- | ----- |
| Net cash flows from operating activities | 9,014 | 7,179 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Property, plant and equipment additions, including allowance for funds used during construction of \$32 and \$40 | (3,397) | (4,612) |
| Acquisitions of water systems | (74) | -- |
| Other | (90) | (11) |
| | ----- | ----- |
| Net cash flows used in investing activities | (3,561) | (4,623) |

| | | |
|------------------------------------------------------------------------------------------|----------|---------|
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Customers' advances and contributions in aid of construction, net of income tax payments | 45 | 409 |
| Repayments of customers' advances | (1,382) | (1,398) |
| Net proceeds (repayments) of short-term debt | (1,170) | 1,595 |
| Proceeds of long-term debt | 7,474 | 1,908 |
| Repayments of long-term debt | (9,150) | -- |
| Redemption of preferred stock of subsidiary | (1,500) | (2,857) |
| Proceeds from issuing common stock | 3,461 | 692 |
| Repurchase of common stock | (3) | (5) |
| Dividends paid | (3,538) | (3,283) |
| Other | (311) | (150) |
| | ----- | ----- |
| Net cash flows used in financing activities | (6,074) | (3,089) |
| | ----- | ----- |
| Net decrease in cash | (621) | (533) |
| Cash balance beginning of year | 2,387 | 1,243 |
| | ----- | ----- |
| Cash balance at end of period | \$ 1,766 | \$ 710 |
| | ===== | ===== |

See notes to consolidated financial statements on page 4 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts)

Note 1 Basis of Presentation

The accompanying consolidated balance sheet of Philadelphia Suburban Corporation at March 31, 1996, the consolidated statements of income for the three months ended March 31, 1996 and 1995, and the consolidated statements of cash flow for the three months ended March 31, 1996 and 1995 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 at March 31, 1996, 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 Annual Report on Form 10-K for the year ended December 31, 1995.

Certain prior year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income.

Note 2 Restricted Cash

In August 1995, PSW issued \$22,000 First Mortgage Bonds as security for an equal amount of bonds issued by the Delaware County Industrial Development Authority. The proceeds from these bonds are restricted to funding the costs of certain capital projects. As of March 31, 1996, the Trustee for this issue held \$433 in an interest bearing account pending completion of the remainder of the projects financed with this issue. The amount held by the Trustee is included in the balance sheet as cash.

Note 3 Long-Term Debt

In January 1996, PSW retired \$5,000 First Mortgage Bonds

7.875% Series due 1997 at a premium of .331% or \$17 and \$4,150 First Mortgage Bonds 8.40% Series due 2002, at a premium of 2.1% or \$87. In April 1996, PSW retired \$10,000 First Mortgage Bonds 10.65% series due 2006, at a premium of 5.04% or \$504. The premiums paid on the early retirement of debt are capitalized and amortized in accordance with the Uniform System of Accounts presented by the Pennsylvania Public Utility Commission over the life of the long-term debt used to fund the redemption. The effect of these transactions on the

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)

Company's Sinking Fund payments for the next five years was to reduce the payments by \$450 annually in 1996 and \$1,450 annually from 1997 to 2001.

In April 1996, PSW issued \$10,000 First Mortgage Bonds 6.99% Series due 2006. The net proceeds of this issue were used to repay amounts outstanding under PSW's revolving credit agreement and fund PSW's ongoing construction program.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In thousands of dollars, except per share amounts)

Philadelphia Suburban Corporation ("PSC" or "the Company"), a Pennsylvania corporation, is the holding Company of Philadelphia Suburban Water Company ("PSW"), a regulated water utility. PSW provides water to approximately 265,000 customers in 81 municipalities within its 406 square-mile service territory. PSW's service territory is located north and west of the City of Philadelphia.

Financial Condition

During the quarter, the Company made \$3,397 of capital expenditures related to routine capital improvements and replacements, redeemed \$1,500 of preferred stock, retired \$9,150 in First Mortgage Bonds, and repaid \$1,382 of customer advances for construction.

During the first quarter of 1996, internally generated funds, available working capital and funds available under the revolving credit agreement were used to fund the cash requirements discussed above, and to pay dividends.

At March 31, 1996, the Company and PSW had \$3,715 and \$1,000 available, respectively under short-term lines of credit and PSW had \$17,250 available under its revolving credit agreement. In April 1996, as described in Note 3 to the Consolidated Financial Statements, PSW issued \$10,000 in First Mortgage Bonds and used the proceeds to repay amounts outstanding under PSW's revolving credit agreement and fund PSW's ongoing construction program.

Results of Operations

Analysis of First Quarter of 1996 Compared to First Quarter of 1995

Revenues for the quarter increased \$3,578 or 13.9% primarily due to a 5.3% rate increase granted PSW in October 1995 and the acquisitions of Media Borough (Media) and four small water utilities.

Operating expenses increased by \$1,304 or 11.1% primarily as a result of the effects of the severe winter weather experienced in 1996. The effects of the severe winter weather caused maintenance problems, including a higher than average number of water main breaks, and additional treatment cost as raw water quality deteriorated with the snow melt. The increase in maintenance and production costs were partially offset by lower employee benefit expenses and a reduction in purchased water.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Depreciation expense increased by \$485 or 17.5% over the prior year due to utility plant placed in service since the first quarter of 1995. Depreciation expense was approximately 2.4% and 2.3% of average utility plant in service in the first quarter of 1996 and 1995, respectively.

Amortization was a charge of \$69 compared to a credit of \$17 in the first quarter of 1995. The change is largely due to the absence in 1996 of \$68 of negative goodwill amortization associated with the December 1992 acquisitions of two water systems that was recognized in the first quarter of 1995 in conjunction with the June 1994 rate settlement and to the amortization of costs associated with the October 1995 rate settlement.

Taxes other than income taxes increased by \$344 or 17.4% primarily due to an increase in the base on which the Pennsylvania Capital Stock Tax is calculated and increased state regulatory taxes.

Interest expense increased by \$387 or 11.4% due to increased borrowing levels since the first quarter of 1995, partially offset by lower interest expense on the revolving credit facility.

Allowance for funds used during construction ("AFUDC") decreased by \$8 primarily due to the decrease in the balance of Construction Work in Progress ("CWIP"). The majority of the decrease in CWIP is associated with a \$4,600 operations center which was placed in service in the fourth quarter of 1995.

The Company's effective income tax rate was 40.8% in the first quarter of 1996 and 41.8% in 1995. The decrease in the effective tax rate is primarily due to a 1% reduction in the Pennsylvania Corporate Net Income tax rate.

Net income for the quarter increased by \$653 or 19.7% primarily as a result of increased revenues, partially offset by increased operating expenses, interest expense, depreciation and amortization. On a per share basis, earnings increased \$.04 or 14.3% reflecting the improvement in net income, offset by a 5.1% increase in the average number of shares outstanding. The increased number of shares outstanding reflects additional shares sold since the first quarter of 1995 through the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Part II. Other Information

Item 1. Legal Proceedings

There are no pending legal proceedings to which the Registrant or any of its subsidiaries is a party or to which any of their properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant. Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1995, which is included by a reference herein.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

| Exhibit No. ----- | Description ----- |
|----------------------|-------------------------|
| 27 | Financial Data Schedule |

(b) Report on Form 8-K

None

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be executed on its behalf by the undersigned thereunto duly authorized.

May 14, 1996

PHILADELPHIA SUBURBAN CORPORATION

Registrant

Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman and President

Michael P. Graham

Michael P. Graham
Senior Vice President - Finance
and Treasurer

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EXHIBIT INDEX

| Exhibit No. | Description | Page No. |
|-------------|-------------------------|----------|
| 27 | Financial Data Schedule | 11 |

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(In thousands, except per share amounts)

This schedule contains summary financial information extracted from the consolidated balance sheets at March 31, 1996, and the consolidated statements of income and cash flow for the three months ended March 31, 1996, and is qualified in its entirety by reference to such financial statements.

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