

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 September 30, 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                          No                        
 -----                                      -----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 1996.

19,011,390  
 -----

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars)

	September 30, 1996	December 31, 1995
	----- (Unaudited)	----- (Audited)
Property, plant and equipment, at cost	\$545,553	\$529,364
Less accumulated depreciation	98,858	92,459
	-----	-----
Net property, plant and equipment	446,695	436,905
Current assets		
Cash	3,068	2,387
Accounts receivable, net	20,388	22,112
Inventory, materials and supplies	2,034	1,878
Prepayments and other current assets	976	537

Total current assets	26,466	26,914
Regulatory assets	48,655	48,757
Deferred charges and other assets, net	7,101	5,475
	-----	-----
	\$528,917	\$518,051
	=====	=====
Common stockholders' equity	\$172,114	\$156,976
Preferred stock of subsidiary with mandatory redemption requirements	4,214	5,643
Long-term debt, excluding current portion	174,940	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	16,440	13,590
Loans payable	5,700	6,455
Accounts payable	3,646	9,694
Accrued interest	4,392	3,601
Accrued taxes	3,115	2,158
Other accrued liabilities	13,315	13,222
	-----	-----
Total current liabilities	48,037	50,220
Deferred credits and other liabilities		
Deferred income taxes and investment credits	72,951	70,980
Customers' advances for construction	23,924	25,880
Other non-current liabilities	9,015	9,762
	-----	-----
Total deferred credits and other liabilities	105,890	106,622
Contributions in aid of construction	23,722	23,195
	-----	-----
	\$528,917	\$518,051
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

(UNAUDITED)

	Nine Months Ended September 30,	
	1996	1995
	-----	-----
Earned revenues	\$ 90,804	\$ 86,894
Costs and expenses		
Operating expenses	37,441	37,916
Depreciation	9,773	8,524
Amortization	241	(43)
Taxes other than income taxes	6,391	5,775
	-----	-----

	53,846	52,172
	-----	-----
Operating income	36,958	34,722
Interest and debt expenses	11,368	10,972
Dividends on preferred stock	372	476
Allowance for funds used during construction	(174)	(168)
	-----	-----
Income from continuing operations before income taxes	25,392	23,442
Provision for income taxes	10,296	9,736
	-----	-----
Income from continuing operations	15,096	13,706
Reversal of reserve for discontinued operations, net of income tax of \$197	365	--
	-----	-----
Net income	\$ 15,461	\$ 13,706
	=====	=====
Net income per share		
Continuing operations	\$ .80	\$ .77
Discontinued operations	.02	--
	-----	-----
Total	\$ .82	\$ .77
	=====	=====
Average common and common equivalent shares outstanding during the period	18,855	17,834
	=====	=====

See notes to consolidated financial statements on page 5 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 September 30,	
	----- 1996 ----	----- 1995 ----
Earned revenues	\$ 30,831	\$ 32,355
Costs and expenses		
Operating expenses	11,757	13,793
Depreciation	3,268	2,949
Amortization	102	(41)
Taxes other than income taxes	2,066	1,928
	-----	-----
	17,193	18,629
	-----	-----
Operating income	13,638	13,726
Interest and debt expenses	3,796	3,872
Dividends on preferred stock	122	154
Allowance for funds used during		

construction	(92)	(79)
	-----	-----
Income from continuing operations before income taxes	9,812	9,779
Provision for income taxes	3,965	4,047
	-----	-----
Income from continuing operations	5,847	5,732
Reversal of reserve for discontinued operations, net of income tax of \$197	365	--
	-----	-----
Net income	\$ 6,212	\$ 5,732
	=====	=====
Net income per share		
Continuing operations	\$ .31	\$ .32
Discontinued operations	.02	--
	-----	-----
Total	\$ .33	\$ .32
	=====	=====
Average common and common equivalent shares outstanding during the period	19,100	18,033
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands of dollars)

(UNAUDITED)

	Nine Months Ended September 30,	
	1996	1995
	----	----
Cash flows from operating activities:		
Income from continuing operations	\$ 15,096	\$ 13,706
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	10,015	8,481
Deferred taxes, net of taxes on customers' advances	1,262	2,277
Net decrease (increase) in receivables, inventory and prepayments	397	(2,337)
Net decrease in payables, accrued taxes and other accrued liabilities	(3,969)	(2,114)
Net increase in accrued interest	791	1,066
Other	(551)	(1,439)
	-----	-----
Net cash flows from operating activities	23,041	19,640
	-----	-----
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$174 and \$168	(17,343)	(20,337)
Acquisitions of water systems	(2,396)	(25,788)
Other	(373)	(19)
	-----	-----
Net cash flows used in investing activities	(20,112)	(46,144)
	-----	-----

Cash flows from financing activities:		
Customers' advances and contributions in aid of construction, net of income tax payments	295	1,575
Repayments of customers' advances	(1,619)	(1,651)
Net proceeds (repayments) of short-term debt	(755)	2,465
Proceeds of long-term debt	21,699	46,015
Repayments of long-term debt	(20,054)	(9,708)
Redemption of preferred stock of subsidiary	(1,500)	(2,857)
Proceeds from issuing common stock	10,667	6,546
Repurchases of common stock	(47)	(411)
Dividends paid	(10,943)	(10,042)
Other	(161)	(155)
	-----	-----
Net cash flows from (used in) financing activities	(2,418)	31,777
	-----	-----
Net cash flows from (to) discontinued operations	170	(157)
	-----	-----
Net increase in cash	681	5,116
Cash balance beginning of year	2,387	1,243
	-----	-----
Cash balance at end of period	\$ 3,068	\$ 6,359
	=====	=====

See notes to consolidated financial statements on page 5 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 September 30, 1996, the consolidated statements of income for the nine months and quarter ended September 30, 1996 and 1995, and the consolidated cash flow statements for the nine months ended September 30, 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 September 30, 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 and the Quarterly Reports on Form 10-Q for the quarters ended June 30, 1996 and March 31, 1996.

All per share data for all periods presented in the accompanying financial statements and notes has been restated to give effect to the July 1996 three-for-two common stock split effected in the form of a 50% stock distribution.

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

#### Note 2 Acquisitions

During the nine months ended September 30, 1996, PSW has

purchased the water utility and related assets of three water systems for a combined purchase price of \$2,396. These systems serve customers near or adjacent to PSW's existing service territory and have combined annual operating revenues of approximately \$130.

In October 1996, PSW purchased the water utility and related assets of the Hatboro Borough Authority for a purchase price of \$10,500. The system is contiguous to PSW's and has annual operating revenues of approximately \$2,000.

PSW is also a party to preliminary agreements to acquire four other water systems for a combined purchase price of approximately \$41,000, including, subject to final negotiations, the issuance of up to \$4,000 of the Company's preferred stock. These systems are adjacent or near to PSW's service territory. The combined annual revenues of these systems is approximately \$5,000. Final closings are subject to final agreements by the parties and completion of due diligence and, in certain cases, may not occur until 1997.

In addition, PSW continues to hold discussions with several other water systems that are near or adjacent to it's service territory.

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#### PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Note 3

#### Discontinued Operations

The Board of Directors had authorized the sale of substantially all of the Company's nonregulated businesses and the last of these businesses were sold in 1993. At the time the Board of Directors authorized the sale of these businesses, the Company established reserves, net of related income tax benefits, for future and contingent costs associated with the discontinued operations.

As a result of the receipt of contingent sale proceeds from one of the businesses sold and the passage of time, which reduced certain potential lease obligations, the Company determined that, as of September 30, 1996, the reserves, net of tax, were in excess of current estimates of potential costs by \$365 or \$.02 per share and the reserves were reduced accordingly in the third quarter of 1996. At September 30, 1996, there remains a balance in the reserve for discontinued operations of \$1,958 which is included in other accrued liabilities.

Note 4

#### Long-Term Debt

In November 1996, PSW issued \$10,000 First Mortgage Bonds 6.83% Series due 2003. The net proceeds of this issue were used to repay amounts outstanding under PSW's revolving credit agreement and to fund PSW's ongoing construction and acquisition programs.

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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 271,000 customers in 83 municipalities within its 410 square-mile service territory. PSW's service territory is located north and west of the City of Philadelphia.

Financial Condition

During the first nine months of 1996, the Company made \$17,343 of expenditures related to routine capital improvements and replacements for PSW; acquired the water utility assets of three small water companies for a combined purchase price of \$2,396; retired \$20,054 in long term debt; repaid \$1,619 of customer advances for construction and redeemed \$1,500 of Preferred Stock.

During this period, internally generated funds, available working capital, funds available under the revolving credit facility, and the proceeds from common stock and long-term debt issues were sufficient to fund the cash requirements discussed above, and to pay dividends. Proceeds from the issuance of common stock, primarily through the Company's Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan amounted to approximately \$10,667 during this period.

In April 1996, PSW issued \$10,000 of First Mortgage Bonds 6.99% Series due 2006 and retired \$10,000 of First Mortgage Bonds at 10.65% Series due 2006. In July 1996, PSW issued \$10,000 of First Mortgage Bonds 7.4% Series due 2003. In November 1996, PSW issued \$10,000 of First Mortgage Bonds 6.83% Series due 2003. These bonds were issued through a Medium Term Note Program. The proceeds from these issuances were used for the retirement of First Mortgage Bonds, to repay amounts outstanding under PSW's revolving credit agreement and to fund PSW's ongoing capital and acquisition programs.

During the third quarter of 1996, the Pennsylvania Public Utility Commission approved, in principle, the concept, and established procedures for water utilities, beginning January 1, 1997, to add a surcharge to their bills as a means to recover the costs associated with distribution system capital improvements between rate filings. In November 1996, PSW filed a request, in accordance with these procedures, to add a .46% surcharge to its bills beginning January 1, 1997. The procedures allow PSW to request adjustments to the surcharge quarterly, based on additional distribution system improvement.

At September 30, 1996, PSW had \$22,895 available under its revolving credit facility and the Company and PSW had \$3,300 and \$1,000, respectively, available under short-term lines of credit.

Management believes that internally generated funds along with the existing credit facilities, the issuance of long-term debt and proceeds from the issuance of common stock, primarily through the Company's Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan are adequate to meet the Company's financing requirements for the balance of the year and beyond.

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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)

Results of Operations

Analysis of First Nine Months of 1996 Compared to First Nine Months of 1995

Revenues increased \$3,910 or 4.5% primarily due to the 5.3% rate increase granted PSW in October 1995 and additional water revenues associated with the acquisition of Media Borough ("Media") and seven smaller water systems purchased during 1995 and 1996, offset partially by a decrease in customer consumption of water. The decreased water consumption is attributable to the cool and wet weather experienced in the third quarter of 1996 which contrasted significantly from the unusually hot and dry weather experienced in 1995.

Operating expenses decreased by \$475 or 1.3% primarily due to reduced treatment expenses, electric usage and water purchases attributable to reduced production, lower maintenance and administrative expenses and decreased employee health and welfare expenses. These decreases were partially offset by the additional operating costs associated with the acquisitions made since 1995.

Depreciation increased by \$1,249 or 14.7% reflecting the impact of the additional utility plant acquired or placed in service in the past year. Depreciation was approximately 2.4% and 2.3% of average utility plant in service in the first nine months of 1996 and 1995.

Amortization was a charge of \$241 compared to a credit of \$43 for the first nine months of 1995. The change is due to the amortization of costs associated with the 1995 rate request filing and additional debt issuance costs which includes the premiums paid on the early retirements of debt since 1995.

Taxes other than income taxes increased by \$616 or 10.7% primarily due to increases in the Pennsylvania Capital Stock Tax and Pennsylvania Public Utility Realty Tax Assessment resulting from an increase in the base on which these taxes are computed.

Interest expense increased by \$396 or 3.6% due to an increase in the average borrowings outstanding, partially offset by lower interest rates. The increase in borrowings were used to fund the Company's ongoing capital projects and acquisitions.

Dividends on preferred stock decreased \$104 or 21.8% due to the reduced number of preferred stock shares outstanding during 1996.

The Company's effective income tax rate was 40.5% in 1996 and 41.5% in 1995. The decrease in the effective tax rate from prior years is primarily due to a change in the amount of nondeductible expense.

Income from continuing operations increased by \$1,390 primarily due to increased revenues, partially offset by increased depreciation, interest expense and taxes other than income taxes. Net income was \$15,461 for the first nine months of 1996 and was higher than income from continuing operations as a result of the reversal of \$365 of reserves for the discontinued operations. On a per share basis, net income increased \$0.05 or 6.5% reflecting the improvement in net income, offset by a 5.7% increase in the average number of shares outstanding. The increased number of shares outstanding reflects additional shares sold since the third quarter of 1995 through the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plans.

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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)

Analysis of Third Quarter of 1996 Compared to Third Quarter of 1995

Revenues for the quarter decreased by \$1,524 or 4.7% compared to 1995 primarily due to a decline in water sales, offset partially by the 5.3% rate increase



granted PSW in October 1995. The decrease in water sales is attributable to the cool and wet weather experienced in 1996, which contrasted significantly from the unusually hot and dry weather experienced in 1995.

Operating expenses for the quarter decreased by \$2,036 or 14.8% primarily due to reduced production costs and expenses associated with the decline in water sales and lower maintenance and administrative expenses. The balance of the reduction in operating expenses relates to lower employee benefit costs due to lower medical insurance premiums and lower pension expense.

Depreciation increased by \$319 or 10.8% reflecting the impact of the additional utility plant acquired or placed in service since the third quarter of 1995. Depreciation was approximately 2.4% of average utility plant in service in both the third quarter of 1996 and 1995 respectively.

Amortization was a charge of \$102 compared to a credit of \$41 in 1995. The change is due to the amortization of costs associated with the 1995 rate request filing and additional debt issuance costs including the premiums paid on the early retirements of debt since 1995.

Taxes other than income taxes increased by \$138 or 7.2% as a result of increases in the Pennsylvania Capital Stock Tax associated with increased equity.

Interest and debt expense decreased \$76 or 2.0% primarily due to lower interest rates partially offset by increased borrowing levels. The increase in borrowings were used to fund the Company's ongoing capital projects and acquisitions.

Dividends on preferred stock decreased \$32 or 20.8% due to the reduced number of preferred stock shares outstanding for the quarter.

The Company's effective income tax rate was 40.5% in 1996 and 41.5% in 1995. The decrease in the effective tax rate from prior years is primarily due to a change in the amount of nondeductible expense.

Income from continuing operations for the quarter increased by \$115 or 2% due to decreased operating expenses, offset partially by lower water revenues. Income from continuing operations on a per share basis for the quarter was \$.31, a decrease of \$.01 per share or 3.1% from 1995 due to a higher number of average shares outstanding. During the quarter, the Company reversed \$365 or \$.02 per share, after taxes, of reserves it had established for discontinued operations. The increased number of shares outstanding reflects additional shares sold since the third quarter of 1995 through the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plans.

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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
-----	-----

(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.

November 12, 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.
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This schedule contains summary financial information extracted from the consolidated balance sheets at September 30, 1996, and the consolidated statements of income and cash flow for the nine months ended September 30, 1996, and is qualified in its entirety by reference to such financial statements.

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