

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 June 30, 1995

Commission File Number 1-6659

PHILADELPHIA SUBURBAN CORPORATION

-----  
(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 Lancaster Avenue, Bryn Mawr, Pennsylvania

19010

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code: (610)-527-8000  
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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 June 30, 1995.

11,950,854  
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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars)

	June 30, 1995	December 31, 1994
	----- (Unaudited)	----- (Audited)
Property, plant and equipment, at cost	\$498,339	\$462,500
Less accumulated depreciation	81,680	76,791
Net property, plant and equipment	----- 416,659	----- 385,709
Current assets		
Cash	(944)	(636)
Accounts receivable, net	19,564	19,303
Inventory, materials and supplies	1,815	1,696
Prepayments and other current assets	2,256	594
	-----	-----

Total current assets	22,691	20,957
Regulatory assets	48,451	48,334
Deferred charges and other assets, net	4,090	3,183
	-----	-----
	\$491,891	\$458,183
	=====	=====
Common stockholders' equity	\$149,259	\$143,795
Preferred stock of subsidiary with mandatory redemption requirements	5,714	7,143
Long-term debt, excluding current portion	174,735	152,195
Commitments	-	-
Current liabilities		
Current portion of preferred stock of subsidiary with mandatory redemption requirements	1,429	2,857
Current portion of long-term debt	8,887	887
Loans payable	5,675	4,050
Accounts payable	2,654	5,626
Accrued interest	3,660	3,346
Other accrued liabilities	10,162	9,912
Net reserves related to discontinued operations	2,559	2,701
	-----	-----
Total current liabilities	35,026	29,379
Deferred credits and other liabilities		
Deferred income taxes and investment credits	69,082	67,721
Customers' advances for construction	24,201	24,713
Other non-current liabilities	11,561	11,028
	-----	-----
Total deferred credits and other liabilities	104,844	103,462
Contributions in aid of construction	22,313	22,209
	-----	-----
	\$491,891	\$458,183
	=====	=====

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)

[CAPTION]

	Six Months Ended June 30,	
	1995	1994
	-----	-----
[S]	[C]	[C]
Earned revenues	\$54,539	\$51,579
Costs and expenses		
Operating expenses	24,123	24,057
Depreciation	5,575	5,165
Amortization	(2)	(159)
Taxes other than income taxes	3,847	3,630
	-----	-----

	33,543	32,693
	-----	-----
Operating income	20,996	18,886
Interest and debt expenses	7,100	6,394
Dividends on preferred stock	322	433
Allowance for funds used during construction	(89)	(43)
	-----	-----
Income before income taxes	13,663	12,102
Provision for income taxes	5,689	5,118
	-----	-----
Net income	\$ 7,974	\$ 6,984
	=====	=====
Net income per share	\$ .67	\$ .61
	=====	=====
Average common and common equivalent shares outstanding during the period	11,831	11,467
	=====	=====

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)

[CAPTION]

	Three Months Ended June 30,	
	----- 1995 -----	----- 1994 -----
[S]	[C]	[C]
Earned revenues	\$28,827	\$26,730
Costs and expenses		
Operating expenses	12,357	12,001
Depreciation	2,805	2,592
Amortization	15	(28)
Taxes other than income taxes	1,874	1,728
	-----	-----
	17,051	16,293
	-----	-----
Operating income	11,776	10,437

Interest and debt expenses	3,704	3,229
Dividends on preferred stock	155	217
Allowance for funds used during construction	(49)	(24)
	-----	-----
Income before income taxes	7,966	7,015
Provision for income taxes	3,307	2,980
	-----	-----
Net income	\$ 4,659	\$ 4,035
	=====	=====
Net income per share	\$ .39	\$ .35
	=====	=====
Average common and common equivalent shares outstanding during the period	11,865	11,461
	=====	=====

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)

	Six Months Ended June 30,	
	1995	1994
	----	----
Cash flows from operating activities		
Net income	\$ 7,974	\$ 6,984
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	5,573	5,006
Deferred taxes, net of taxes on customers' advances	1,059	1,085
Net increase in receivables, inventory and prepayments	(1,260)	(3,270)
Net decrease in payables and other accrued liabilities	(2,795)	(1,886)
Net increase (decrease) in accrued interest	313	(41)
Other	105	(226)
	-----	-----
Net cash flows from operating activities	10,969	7,652
	-----	-----
Cash flows from investing activities		
Property, plant and equipment additions, including allowance for funds used during construction of \$89 and \$43	(11,276)	(8,539)
Acquisition of water system	(25,711)	-

Other	(42)	22
	-----	-----
Net cash flows from investing activities	(37,029)	(8,517)
	-----	-----
Cash flows from financing activities		
Customers' advances and contributions in aid of construction, net of income tax payments	1,156	926
Repayments of customers' advances	(1,564)	(1,587)
Net proceeds (repayments) of short-term debt	1,625	(749)
Proceeds of long-term debt	31,044	12,464
Repayments of long-term debt	(850)	(4,850)
Redemption of preferred stock of subsidiary	(2,857)	-
Proceeds from issuing common stock	4,072	3,364
Repurchases of common stock	(5)	(2,020)
Dividends paid	(6,577)	(6,151)
Other	(150)	(142)
	-----	-----
Net cash flows from financing activities	25,894	1,255
	-----	-----
Net cash flows to discontinued operations	(142)	(209)
	-----	-----
Net increase (decrease) in cash	(308)	181
Cash deficit beginning of year	(636)	(868)
	-----	-----
Cash deficit at end of period	\$ (944)	\$ (687)
	=====	=====

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 June 30, 1995, the consolidated statements of income for the six months and quarter ended June 30, 1995 and 1994, and the consolidated cash flow statements for the six months ended June 30, 1995 and 1994 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 June 30, 1995, 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, 1994 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

###### Note 2 Water Rates

Philadelphia Suburban Water Company (PSW) filed an application with the Pennsylvania Public Utility Commission ("PUC") on April 28, 1995 requesting a \$14,000 or 12.1% increase in annual revenues. This application is currently pending before the PUC and a final determination is anticipated by January 1996.

In addition to its base rates, PSW has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania

State taxes until such time as the tax changes are incorporated into base rates. In July 1994, PSW was required to initiate a revenue credit of .19% in order to provide its customers with the savings associated with State income tax rate decreases. Effective April 10, 1995, PSW revised the credit to .40% (\$441 of annual revenues) and effective July 31, 1995, PSW revised the credit to 1.04% (\$1,036 of annual revenues). Revisions to the revenue credit in 1995 reflect the savings associated with further decreases in State taxes, particularly a reduction in the income tax rate.

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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 Acquisitions

In May 1995, PSW purchased the water utility and related assets of Media Borough ("Media"). The Media system, for which PSW paid \$25,711 in cash and the assumption of \$1,100 in liabilities, covers a 23 square mile service area contiguous to PSW's service territory. Annual revenue from this system approximates \$4,500. The assets acquired, net of liabilities assumed, is presently recorded in Property, Plant and Equipment and Accounts Receivable pending final allocation to the appropriate accounts.

Note 4 Long-Term Debt

In May 1995, PSW issued \$15,000 First Mortgage Bonds 7.72% Series due 2025, and in June 1995, PSW issued \$10,000 First Mortgage Bonds 6.82% Series due 2005. Both of these issuances were made through the \$100,000 Medium Term Note program that was established in March 1995. In addition, in May 1995 the revolving credit facility was temporarily increased from \$30,000 to \$40,000 until the end of August 1995. The proceeds from these issuances and the revolving credit facility were used to fund the Media acquisition, the retirement of the First Mortgage Bond noted below and PSW's ongoing capital program.

During the second quarter, PSW called \$8,000 of First Mortgage Bonds, 13% Series due 2005, for retirement in August 1995 and as of June 30, 1995, such amounts have been reclassified as current portion of long-term debt. The premium on the early retirement of 6.1% or \$488 will be deferred and amortized in accordance with the Uniform System of Accounts prescribed by the PUC, over the life of the First Mortgage Bonds issued during the second quarter of 1995.

The effect of these transactions on the Company's sinking fund payments for the next five years is to reduce the total payments by \$800 in each year from 1995 through 2000.

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

Philadelphia Suburban Corporation (the Company or PSC) is composed of two businesses, a regulated water utility (Philadelphia Suburban Water Company or PSW), and a non-regulated data processing service bureau (Utility & Municipal Services, Inc. or UMS). The operations of UMS are not significant to the financial results of the Company and, therefore, are not discussed separately. Corporate expenses include administrative expenses of a general nature.

Financial Condition

During the first half of 1995, the Company acquired the water utility assets of the Borough of Media ("Media") for \$25,711 in cash, and made \$11,276 of expenditures related to routine capital improvements and replacements for PSW, repaid \$1,564 of customer advances for construction and redeemed \$2,857 of Preferred Stock.

During the first six months, internally generated funds, available working capital, funds available under the revolving credit facility, and funds obtained from the proceeds of common stock and long-term debt 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 Plan amounted to approximately \$4,072. Effective with the September 1, 1995 payment, the Company has increased the quarterly dividend on common stock from \$.28 per share to \$.29 per share.

In May 1995, PSW temporarily increased its revolving credit facility from \$30,000 to \$40,000 until the end of August 1995. At June 30, 1995, PSW had \$14,240 available under its revolving credit facility and the Company and PSW had \$3,325 and \$1,000 respectively, available under short-term lines of credit.

During the second quarter of 1995, PSW issued \$15,000 First Mortgage Bonds 7.72% Series due 2025 and \$10,000 First Mortgage Bonds 6.82% Series due 2005. The proceeds from these issuances were used to acquire Media's water utility assets, to fund the ongoing capital projects of PSW and will be used to fund the early retirement of \$8,000 First Mortgage Bonds 13% Series due 2005 in August 1995.

Traditionally, PSW has financed its ongoing construction program and other financial requirements separately from PSC. PSW's ability to finance its future construction program and pay dividends to the Company depends on its ability to attract the necessary external financing and to maintain or increase internally generated funds. Rate increases and regulatory support will continue to be required to allow PSW to achieve a level of earnings necessary to attract capital, to maintain satisfactory debt coverage ratios and to provide shareholders an adequate return on their investment.

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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)

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 Plan are adequate to meet the Company's financing requirements for the balance of the year and beyond.

Results of Operations

Analysis of First Six Months of 1995 Compared to First Six Months of 1994

Revenues increased \$3,115 or 6.1% primarily due to the 9.05% rate increase granted PSW in June 1994 and additional water revenues associated with

the Media water system, offset partially by a decrease in customer consumption of water.

Operating expenses increased by \$66 due to higher employee benefit expenses, expenses associated with the recently acquired Media water system and increased wages, offset partially by a reduction in maintenance and production costs. Employee benefit expenses increased as a result of the recognition of \$751 of increased costs for Postretirement Benefits Other than Pensions computed under Statement of Financial Accounting Standards No. 106 in conjunction with the June 1994 rate increase. The decrease in maintenance and production costs were a result of the effects of the milder winter weather experienced in 1995. The effects of the severe winter weather in 1994 caused significant maintenance and production cost increases estimated at \$800 over normal winter costs.

Depreciation increased by \$410 or 7.9% reflecting the impact of utility plant placed in service since June 1994. Depreciation was approximately 2.3% of average utility plant in service in both the first half of 1995 and 1994.

Amortization was a credit of \$2 compared to a credit of \$159 in the first six months of 1994, a change of \$157. The change is primarily due to \$148 of additional negative goodwill amortization associated with the December 1992 acquisitions of two water systems that was recognized in 1994 in conjunction with the June 1994 rate settlement.

Taxes other than income taxes increased by \$217 or 6.0% primarily due to increases in the Pennsylvania Capital Stock Tax associated with increased equity, a higher Pennsylvania Public Utility Realty Tax Assessment resulting from the Media acquisition and due to increased state regulatory taxes.

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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)

Dividends on preferred stock decreased by \$111 or 25.6% as a result of the redemption of 28,570 preferred shares in January 1995.

Interest expense increased by \$706 or 11% reflecting higher interest rates on borrowings under the Company's credit facilities and due to an increase in the average amount of debt outstanding.

Allowance for funds used during construction ("AFUDC") increased by \$46 primarily due to a higher AFUDC rate. The AFUDC rate increased in connection with the higher interest rate on the revolving credit facility.

The Company's effective income tax rate was 41.6% in 1995 and 42.3% in 1994. The decrease in the effective tax rate is due primarily to a 1% reduction in the Pennsylvania Corporate Net Income tax rate, partially offset by a change in the expenses that are not tax deductible.

Net income increased \$990 or 14.2% primarily due to increased revenues, partially offset by higher interest expenses, depreciation, amortization and taxes other than income. On a per share basis, earnings increased \$.06 or 9.8% reflecting the improvement in net income offset by a 3.2% increase in the average number of shares outstanding. The increased number of shares outstanding reflects shares sold since the second quarter of 1994 through the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan.

Analysis of Second Quarter of 1995 Compared to Second Quarter of 1994

Revenues for the quarter increased \$2,097 or 7.8% primarily due to the rate increase granted PSW in June 1994 and revenues associated with the Media water system acquired in May 1995, partially offset by a decrease in customers' consumption of water.

Operating expenses increased \$356 or 3.0% primarily as a result of the



\$332 of the additional costs for Postretirement Benefits Other than Pensions computed under Statement of Financial Accounting Standards No. 106 recognized in conjunction with the June 17, 1994 rate increase. Operating expenses were also affected by increased wages and the operating expenses associated with the Media water system.

Depreciation increased by \$213 or 8.2% reflecting the impact of utility plant placed in service since the second quarter of 1994. Depreciation was approximately 2.3% of average utility plant in service in both the second quarter of 1995 and 1994, respectively.

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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)

Amortization was a charge of \$15 as compared to a credit of \$28 in 1994 due to \$63 of additional negative amortization associated with the June 1994 rate settlement related to the acquisition of two water systems in 1994.

Taxes other than income taxes increased \$146 or 8.4% as a result of increases in the Pennsylvania Capital Stock Tax associated with increased equity, a higher Pennsylvania Public Utility Realty Tax Assessment resulting from the Media acquisition and due to increased state regulatory taxes.

Interest expense increased \$475 or 14.70% reflecting higher interest rates on the short-term credit facilities and an increased level of borrowings. The increase in borrowings were used to fund the Media acquisition and ongoing capital projects.

Dividends on preferred stock decreased \$62 or 28.6% due to the reduced number of preferred stock shares outstanding for the quarter.

Allowance for funds used during construction ("AFUDC") increased by \$25 primarily due to a higher AFUDC rate. The AFUDC rate increased due to higher interest rates on the revolving credit facility in 1995 as compared to the second quarter of 1994.

The Company's effective income tax rate was 41.5% in 1995 and 42.5% in 1994. 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 \$624 or 15.5% principally due to increased water revenues, partially offset by higher interest and operating expenses. Earnings per share, however, increased only \$.04 per share or 11.4% due to the higher number of average shares outstanding.

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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, 1994, which is included by a reference herein.

Item 4.

Results of Vote of Security Holders

The Annual Meeting of Shareholders of Philadelphia Suburban Corporation (the "Company") was held on May 18, 1995 at the headquarters of the Company, 762 Lancaster Avenue, Bryn Mawr, Pennsylvania, pursuant to the Notice sent on or about March 31, 1995 to all shareholders of record at the close of business on March 17, 1995. At that meeting, the following nominees were elected as directors of the Company for terms expiring in 1998 and received the votes set forth after their names below:

Name of Nominee -----	For ---	Withheld -----
Mary C. Carroll	9,769,511	128,274
Claudio Elia	9,770,120	127,665
Joseph C. Ladd	9,763,081	134,704

Since the Board of Directors is divided into three classes with one class elected each year to hold office for a three-year term, the term of office for the following directors continued after the Annual Meeting: John W. Boyer, Jr.; Nicholas DeBenedictis; G. Fred DiBona; John H. Austin; John F. McCaughan; and Harvey J. Wilson.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Part II. Other Information (continued)

Item 4., Continued

In addition to the election of directors, the following proposals were presented at the Annual Meeting and received the votes set forth below:

- a. Adoption of Amendment 1994-1 to the 1994 Equity Compensation Plan

For ---	Against -----	Abstentions -----	Broker Non-votes -----
9,073,233	625,499	199,053	0

- b. A Shareholder Proposal to Elect All Directors Annually

For ---	Against -----	Abstentions -----	Broker Non-votes -----
2,164,123	5,987,869	292,060	29,811

Item 6.

Exhibits and Reports on Form 8-K

- (a) Exhibits

Exhibit No. -----	Description -----
20	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.

August 9, 1995

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 27

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

FINANCIAL DATA SCHEDULE  
(In thousands, except per share amounts)

Item Number -----	Item Description -----	Amount -----
1	Total Net Utility Plant	\$416,574
2	Other Property and Investments	85
3	Total Current Assets	22,691
4	Total Deferred Charges	4,090
5	Balancing Amount for Total Assets	48,451
6	Total Assets	491,891
7	Common Stock	2,992
8	Capital Surplus, Paid In	106,379
9	Retained Earnings	39,888
10	Total Common Stockholders Equity	149,259

11	Preferred Stock Subject to Mandatory Redemption	5,714
12	Preferred Stock Not Subject to Mandatory Redemption	-
13	Long Term Debt, Net	174,735
14	Short Term Notes	-
15	Notes Payable	5,675
16	Commercial Paper	-
17	Long-term Debt - Current Portion	8,887
18	Preferred Stock - Current Portion	1,429
19	Obligations Under Capital Leases	-
20	Obligations Under Capital Leases - Current Portion	-
21	Balancing Amount for Capitalization and Liabilities	146,192
22	Total Capitalization and Liabilities	491,891
23	Gross Operating Revenue	54,539
24	Federal and State Income Taxes Expense	5,689
25	Other Operating Expenses	33,543
26	Total Operating Expenses	39,232
27	Operating Income (loss)	15,307
28	Other Income (loss), net	-
29	Income Before Interest Charges	15,307
30	Total Interest Charges	7,011
31	Net Income	7,974
32	Preferred Stock Dividends	322
33	Earnings Available for Common Stock	7,974
34	Common Stock Dividends	6,577
35	Total Annual Interest Charges on all Bonds	13,488
36	Cash Flow from Operations	10,969
37	Earnings Per Share - Primary	.67
38	Earnings Per Share - Fully Diluted	.67