

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, 1997

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.)
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----- 762 Lancaster Avenue, Bryn Mawr, Pennsylvania ----- (Address of principal executive offices)	19010 ----- (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 March 31, 1997.

19,350,292  
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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars)

	March 31, 1997	December 31, 1996
	----- (Unaudited)	----- (Audited)
Property, plant and equipment, at cost	\$ 618,423	\$ 612,812
Less accumulated depreciation	113,678	109,874
Net property, plant and equipment	----- 504,745	----- 502,938
Current assets:		
Cash	766	1,518

Accounts receivable, net	21,192	21,914
Inventory, materials and supplies	1,998	1,943
Prepayments and other current assets	436	660
Total current assets	24,392	26,035
Regulatory assets	48,456	48,491
Deferred charges and other assets, net	6,276	5,480
	\$ 583,869	\$ 582,944
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 3,220	\$ 3,220
Common stock at \$.50 par value, authorized 40,000,000 shares, outstanding 19,350,292 and 19,198,579 in 1997 and 1996	9,816	9,731
Capital in excess of par value	124,348	121,439
Retained earnings	49,840	49,272
Treasury stock, 282,848 and 262,230 shares in 1997 and 1996	(4,063)	(3,647)
Total stockholders' equity	183,161	180,015
Preferred stock of subsidiary with mandatory redemption requirements	2,786	4,214
Long-term debt, excluding current portion	187,791	217,518
Commitments	-	-
Current liabilities:		
Current portion of long-term debt and preferred stock of subsidiary	44,624	13,873
Loans payable	5,575	5,560
Accounts payable	5,183	9,659
Accrued interest	4,778	3,660
Accrued taxes	4,835	3,363
Other accrued liabilities	9,074	8,924
Total current liabilities	74,069	45,039
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	76,928	75,949
Customers' advances for construction	22,373	23,524
Other	12,629	12,826
Total deferred credits and other liabilities	111,930	112,299
Contributions in aid of construction	24,132	23,859
	\$ 583,869	\$ 582,944

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 March 31,	
	1997	1996
Earned revenues	\$ 31,021	\$ 29,290
Costs and expenses		
Operating expenses	13,068	13,070
Depreciation	3,687	3,255
Amortization	10	69
Taxes other than income taxes	2,242	2,317
	19,007	18,711
Operating income	12,014	10,579
Interest expense	4,436	3,783

Dividends on preferred stock of subsidiary	96	127
Allowance for funds used during construction	(90)	(32)
	-----	-----
Income before income taxes	7,572	6,701
Provision for income taxes	3,063	2,733
	-----	-----
Net income	4,509	3,968
Dividends on preferred stock	49	--
	-----	-----
Net income available to common stock	\$ 4,460	\$ 3,968
	=====	=====
Net income per common share	\$ 0.23	\$ 0.21
	=====	=====
Average common and common equivalent shares outstanding during the period	19,521	18,564
	=====	=====

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands of dollars)

(UNAUDITED)

	Three Months Ended March 31,	
	1997	1996
	-----	-----
Cash flows from operating activities:		
Net income	\$ 4,509	\$ 3,968
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	3,697	3,324
Deferred taxes, net of taxes on customers' advances	532	(54)
Net decrease in receivables, inventory and prepayments	884	1,696
Net increase (decrease) in payables, accrued interest and other accrued liabilities	(1,478)	159
Other	(352)	(79)
	-----	-----
Net cash flows from operating activities	7,792	9,014
	-----	-----
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$90 and \$32	(4,926)	(3,397)
Acquisitions of water systems	(435)	(74)
Other	(80)	(90)
	-----	-----
Net cash flows used in investing activities	(5,441)	(3,561)
	-----	-----
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction, net of income tax payments	20	45
Repayments of customers' advances	(1,219)	(1,382)
Net proceeds (repayments) of short-term debt	15	(1,170)
Proceeds from long-term debt	9,930	7,474
Repayments of long-term debt	(8,976)	(9,150)
Redemption of preferred stock of subsidiary	(1,428)	(1,500)
Proceeds from issuing common stock	3,147	3,461
Repurchase of common stock	(569)	(3)
Dividends paid on preferred stock	(49)	--
Dividends paid on common stock	(3,892)	(3,538)
Other	(82)	(311)
	-----	-----
Net cash flows used in financing activities	(3,103)	(6,074)

Net decrease in cash	(752)	(621)
Cash balance beginning of year	1,518	2,387
Cash balance at end of period	\$ 766	\$ 1,766

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

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CAPITALIZATION  
(In thousands of dollars, except per share amounts)

	March 31, 1997	December 31, 1996
	(Unaudited)	(Audited)
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 3,220	\$ 3,220
Common stock, \$.50 par value	9,816	9,731
Capital in excess of par value	124,348	121,439
Retained earnings	49,840	49,272
Treasury stock	(4,063)	(3,647)
Total stockholders' equity	183,161	180,015
Preferred stock of subsidiary with mandatory redemption requirements	4,215	5,643
Current portion of preferred stock of subsidiary	1,429	1,429
	2,786	4,214
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
8.44% Series, due 1997	12,000	12,000
5.95% Series, due 2002*	2,400	2,400
6.83% Series, due 2003	10,000	10,000
7.47% Series, due 2003	10,000	10,000
7.06% Series, due 2004	10,000	-
6.82% Series, due 2005	10,000	10,000
6.99% Series, due 2006	10,000	10,000
9.89% Series, due 2008	5,000	5,000
7.15% Series, due 2008*	22,000	22,000
9.12% Series, due 2010	20,000	20,000
6.50% Series, due 2010*	3,200	3,200
9.17% Series, due 2011	5,000	5,000
9.93% Series, due 2013	5,000	5,000
6.89% Series, due 2015	12,000	12,000
9.97% Series, due 2018	5,000	5,000
9.17% Series, due 2021*	8,000	8,000
6.35% Series, due 2025	22,000	22,000
7.72% Series, due 2025	15,000	15,000
9.29% Series, due 2026	12,000	12,000
Total First Mortgage Bonds	198,600	188,600
Note payable to bank under revolving credit agreement, due March 1998	30,751	39,727
Installment note payable, 90%, due in equal annual payments through 2013	1,635	1,635
Current portion of long-term debt	230,986	229,962
Long-term debt, excluding current portion	43,195	12,444
Total capitalization	\$ 373,738	\$ 401,747

\*Trust indentures relating to these First Mortgage Bonds require annual sinking fund payments.

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 and statement of capitalization of Philadelphia Suburban Corporation at March 31, 1997, the consolidated statements of income for the three months ended March 31, 1997 and 1996, and the consolidated statements of cash flow for the three months ended March 31, 1997 and 1996 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, 1997, 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, 1996.

Note 2 Water Rates

Philadelphia Suburban Water Company ("PSW") filed an application with the Pennsylvania Public Utility Commission ("PUC") on April 25, 1997, requesting a \$17,000 or 13.2% increase in annual revenues. This application is currently pending before the PUC and a final determination is anticipated by January 1998.

Note 3 Long-Term Debt

In March 1997, PSW issued \$10,000 First Mortgage Bonds 7.06% Series due 2004. 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 285,000 customers in 93 municipalities within its 465 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 \$4,926 of capital expenditures related to routine capital improvements and replacements, redeemed \$1,428 of preferred stock, and repaid \$1,219 of customer advances for construction. On April 1, the Company retired \$12,000 in First Mortgage Bonds, 8.44% Series due 1997, at par.

During the first quarter of 1997, internally generated funds, available working capital and funds available under the revolving credit agreement and the proceeds from issuance of common stock and a long-term debt issue were used to fund the cash requirements discussed above, and to pay dividends.

At March 31, 1997, the Company and PSW had \$3,425 and \$1,000 available, respectively under short-term lines of credit and PSW had \$19,249 available under its revolving credit agreement. In March, as described in Note 3 to the

Consolidated Financial Statements for the quarter ended March 31, 1997, 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. The current portion of long-term debt includes \$30,751 borrowed under a revolving credit agreement that expires in March 1998. The Company intends to renew this facility and refinance a portion of this balance through the issuance of First Mortgage Bonds.

#### Results of Operations

##### Analysis of First Quarter of 1997 Compared to First Quarter of 1996

Revenues for the quarter increased \$1,731 or 5.9% primarily as a result of the acquisitions of the water systems of Bristol Borough Water and Sewer Authority (Bristol), Hatboro Borough Water Authority (Hatboro), and Utility Group Services Corporation (UGS) and three small water utilities which increased revenues by \$1,417. Revenues also included \$250 of contingent sale proceeds from a subsidiary the Company sold in 1991.

Operating expenses decreased by \$2 from the prior year. Operating expenses decreased because of the contrast from 1996 winter weather conditions that resulted in a lower than average number of main breaks and reduced maintenance expenses. This reduction in operating expenses was partially offset by the additional operating expenses of the water systems acquired during 1996.

Depreciation expense increased by \$432 or 13.3% over the prior year primarily due to property, plant and equipment placed in service since the first quarter of 1996, including the 1996 acquisitions. Depreciation expense was approximately 2.40% and 2.45% of average property plant and equipment in the first quarter of 1997 and 1996, respectively.

Amortization decreased \$59 due to the completion of the amortization on the 1995 rate case and other expenses in the fourth quarter of 1996, offset in part by the amortization of additional debt issuance costs.

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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)

Taxes other than income taxes decreased by \$75 or 3.2% primarily due to a reduction in payroll taxes, due to reduced overtime, and a reduction in regulatory assessments.

Interest expense increased by \$653 or 17.3% due to increased borrowing levels since the first quarter of 1996, partially offset by lower interest rates. The increased borrowing level was used to finance the 1996 acquisitions and other capital projects.

Allowance for funds used during construction increased by \$58 primarily due to an increase in the average balance of utility plant construction work in progress.

The Company's effective income tax rate was 40.5% in the first quarter of 1997 and 40.8% in 1996.

Net income available to common stock for the quarter increased by \$492 or 12.4% primarily as a result of increased revenues and decreases in amortizations and other taxes partially offset by increased interest expense and depreciation. On a per share basis, earnings increased \$.02 or 9.5% reflecting the improvement in net income, offset by a 5.2% increase in the average number of shares outstanding. The increased number of shares outstanding is due to the additional shares sold since the first quarter of 1996 through the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan.

## 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, 1996, 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

## 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 13, 1997

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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This schedule contains summary financial information extracted from the consolidated balance sheets and the statements of capitalization at March 31, 1997, and the consolidated statements of income and cash flow for the three months ended March 31, 1997, and is qualified in its entirety by reference to such financial statements.

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