EURO TECH HOLDINGS CO LTD
Form 20-F
June 29, 2009
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FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

Commission file number 000-22113

EURO TECH HOLDINGS COMPANY LIMITED
(Exact name of Registrant as specified in its charter)

EURO TECH HOLDINGS COMPANY LIMITED
(Translation of Registrant s name into English)

British Virgin Islands
(Jurisdiction of incorporation or organization)

18/F Gee Chang Hong Centre, 65 Wong Chuk Hong Road, Hong Kong
(Address of principal executive offices)

T.C. Leung,
FAX: 852-28734887,
18/F Gee Chang Hong Centre,
65 Wong Chuk Hong Road,
Hong Kong
(Name, telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Ordinary Shares, $0.01 par value

Name of each exchange on which registered: NASDAQ

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

(Title of Class)

Indicate the number of issued and outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

11,820,339 Ordinary Shares.

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. Act.

x Yes o No

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

o Yes x No

If this is an annual or transitional report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

o Yes x 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).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated filer o	Accelerated filer o	Non-Accelerated filer x

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

o Yes x No

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INTRODUCTION

In this Form 20-F, reference to us , we , the Company and Euro Tech are to Euro Tech Holdings Company Limited and its subsidiaries unless otherwise expressly stated or the context otherwise requires.

Forward Looking Statements

This annual report contains forward looking statements. Additional written or oral forward looking statements may be made by the Company from time to time in filings with the Securities and Exchange Commission (the SEC or the Commission) or otherwise. Such forward looking statements are within the meaning of that term in Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). Such statements may include, but not be limited to, projections of revenues, income, or loss, capital expenditures, plans for future operations, financing needs or plans, and plans relating to products or services of the Company, as well as assumptions relating to the foregoing. The words believe, expect, anticipate, estimate, project, and similar expressions identify forward looking statements, which speak only as of the date the statement was made. Forward looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward looking statements. Statements in this Annual Report, including those contained in the sections entitled Part I, Item 3D. Risk Factors and Item 5. Operating and Financial Review and Prospects and the notes to the Company s Consolidated Financial Statements, describe factors, among others, that could contribute to or cause such differences.

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GLOSSARY

The following glossary of terms may be helpful in understanding the terminology used in this Annual Report.

Ambient Air:	Atmospheric air (outdoor as opposed to indoor air).
Anaerobic:	Treating waste water biologically in the absence of air.
Atomic Spectrometer:	An analytical instrument used to measure the presence of an element in a substance by testing a sample which is aspirated into a flame and atomized. The amount of light absorbed or emitted is measured. The amount of energy absorbed or emitted is proportional to the concentration of the element in the sample.

Contributions in aid of construction		25,949	25,926
Total Stockholders' Equity and Liabilities	$	267,541	$259,931

The accompanying notes are an integral part of these statements.

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THE YORK WATER COMPANY

Statements of Income (Unaudited)
(In thousands of dollars, except per share amounts)

	Three Months Ended September 30 2011	Three Months Ended September 30 2010	Nine Months Ended September 30 2011	Nine Months Ended September 30 2010
WATER OPERATING REVENUES:				
Residential	$ 6,564	$ 6,538	$ 19,320	$ 18,343
Commercial and industrial	3,148	3,179	8,925	8,616
Other	739	770	2,303	2,292
	10,451	10,487	30,548	29,251
OPERATING EXPENSES:				
Operation and maintenance	1,881	1,788	5,370	5,040
Administrative and general	1,753	1,649	5,561	4,975
Depreciation and amortization	1,221	1,150	3,667	3,435
Taxes other than income taxes	317	296	923	877
	5,172	4,883	15,521	14,327
Operating income	5,279	5,604	15,027	14,924
OTHER INCOME (EXPENSES):				
Interest on debt	(1,313)	(1,193)	(3,943)	(3,597)
Allowance for funds used during construction	30	29	80	51
Other income (expenses), net	(280)	(131)	(396)	(287)
	(1,563)	(1,295)	(4,259)	(3,833)
Income before income taxes	3,716	4,309	10,768	11,091
Income taxes	1,352	1,639	3,807	4,238
Net Income	$ 2,364	$ 2,670	$ 6,961	$ 6,853
Basic Earnings Per Share	$ 0.19	$ 0.21	$ 0.55	$ 0.54
Cash Dividends Declared Per Share	$ 0.131	$ 0.128	$ 0.393	$ 0.384

The accompanying notes are an integral part of these statements.

THE YORK WATER COMPANY

Statements of Common Stockholders' Equity (Unaudited)
(In thousands of dollars, except per share amounts)
For the Periods Ended September 30, 2011 and 2010

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance, December 31, 2010	12,692,054	$ 75,481	$ 15,776	$ 91,257
Net income	-	-	6,961	6,961
Dividends ($.393 per share)	-	-	(5,001)	(5,001)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	75,729	1,232	-	1,232
Balance, September 30, 2011	12,767,783	$ 76,713	$ 17,736	$ 94,449

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance, December 31, 2009	12,558,724	$ 73,569	$ 13,353	$ 86,922
Net income	-	-	6,853	6,853
Dividends ($.384 per share)	-	-	(4,845)	(4,845)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	108,944	1,508	-	1,508
Balance, September 30, 2010	12,667,668	$ 75,077	$ 15,361	$ 90,438

The accompanying notes are an integral part of these statements.

THE YORK WATER COMPANY

Statements of Cash Flows (Unaudited)
(In thousands of dollars, except per share amounts)

	Nine Months Ended September 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,961	$ 6,853
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,667	3,435
Increase in deferred income taxes	2,865	1,948
Other	314	90
Changes in assets and liabilities:		
Increase in accounts receivable and unbilled revenues	(20)	(955)
Increase in recoverable income taxes	(268)	(642)
Increase in materials and supplies, prepaid expenses, regulatory and other assets	(955)	(721)
Increase in accounts payable, accrued compensation and benefits, accrued expenses, deferred employee benefits, and other deferred credits	577	933
Increase (decrease) in accrued interest and taxes	154	(322)
Net cash provided by operating activities	13,295	10,619
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions, including debt portion of allowance for funds used during construction of $45 in 2011 and $28 in 2010	(6,794)	(5,727)
Decrease in notes receivable	33	35
Net cash used in investing activities	(6,761)	(5,692)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Customers' advances for construction and contributions in aid of construction	90	271
Repayments of customer advances	(234)	(358)
Proceeds of long-term debt issues	-	18,114
Repayments of long-term debt	(95)	(20,452)
Borrowings under short-term line of credit agreements	-	1,000
Changes in cash overdraft position	-	(176)
Issuance of common stock	1,232	1,508
Dividends paid	(4,993)	(4,834)
Net cash used in financing activities	(4,000)	(4,927)
Net change in cash and cash equivalents	2,534	-
Cash and cash equivalents at beginning of period	1,327	-
Cash and cash equivalents at end of period	$ 3,861	$ -

Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest, net of amounts capitalized	$	3,745	$	3,413
Income taxes		838		3,384

Supplemental schedule of non-cash investing and financing activities:

Accounts payable includes $606 in 2011 and $1,920 in 2010 for the construction of utility plant.

Short-term line of credit borrowings amounting to $3,000 were reclassified as long-term borrowings in 2010.

The accompanying notes are an integral part of these statements.

THE YORK WATER COMPANY

Notes to Interim Financial Statements
(In thousands of dollars, except per share amounts)

1. Basis of Presentation

The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments, consisting of only normal recurring accruals, necessary for a fair presentation of results for such periods. Because the financial statements cover an interim period, they do not include all disclosures and notes normally provided in annual financial statements, and therefore, should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report to Shareholders for the year ended December 31, 2010.

Operating results for the three and nine month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

2. Basic Earnings Per Share

Basic earnings per share for the three months ended September 30, 2011 and 2010 were based on weighted average shares outstanding of 12,747,915 and 12,648,338, respectively.

Basic earnings per share for the nine months ended September 30, 2011 and 2010 were based on weighted average shares outstanding of 12,721,638 and 12,611,364, respectively.

Since the Company has no common stock equivalents outstanding, there are no diluted earnings per share.

3. Reclassification

Certain 2010 amounts have been reclassified to conform to the 2011 presentation. Such reclassifications had no effect on net income, the statement of common stockholders' equity, or the statement of cash flow category reporting.

4 Pensions

Components of Net Periodic Pension Cost

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Service cost	$ 233	$ 195	$ 698	$ 583
Interest cost	347	333	1,042	1,001
Expected return on plan assets	(333)	(291)	(1,000)	(874)
Plan amendments	23	-	69	-
Amortization of actuarial loss	78	54	234	160
Amortization of prior service cost	4	4	13	13
Rate-regulated adjustment	46	9	138	30
Net periodic pension expense	$ 398	$ 304	$ 1,194	$ 913

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2010 that it expected to contribute $1,593 to its pension plans in 2011. As of September 30, 2011, contributions of $1,593 had been made. The Company does not expect to contribute any additional amount during the fourth quarter of 2011.

5. Interest Rate Swap Agreement

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. The Company utilizes an interest rate swap agreement to effectively convert the Company's $12,000 variable-rate debt issue to a fixed rate. Interest rate swaps are contracts in which a series of interest rate cash flows are exchanged over a prescribed period. The notional amount on which the interest payments are based ($12,000) is not exchanged. The interest rate swap provides that the Company pays the counterparty a fixed interest rate of 3.16% on the notional amount of $12,000. In exchange, the counterparty pays the Company a variable interest rate based on 59% of LIBOR on the notional amount. The intent is for the variable rate received from the swap counterparty to approximate the variable rate the Company pays to bondholders on its variable rate debt issue, resulting in a fixed rate being paid to the swap counterparty and reducing the Company's interest rate risk. The Company's net payment rate on the swap was 3.13% during the three months ended September 30, 2011 and 3.01% during the nine months ended September 30, 2011.

The interest rate swap agreement is classified as a financial derivative used for non-trading activities. The professional standards regarding accounting for derivatives and hedging activities require companies to recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. In accordance with the standards, the interest rate swap is recorded on the balance sheet in other deferred credits at fair value (see Note 6).

The Company uses regulatory accounting treatment rather than hedge accounting to defer the unrealized gains and losses on its interest rate swap. Instead of the effective portion being recorded as other comprehensive income and the ineffective portion being recognized in earnings using the cash flow hedge accounting rules provided by the derivative accounting standards, the entire unrealized swap value is recorded as a regulatory asset. Based on current ratemaking treatment, the Company expects the unrealized gains and losses to be recognized in rates as a component of interest expense as the swap settlements occur. Swap settlements are recorded in the income statement with the hedged item as interest expense. During the three months ended September 30, 2011, $92 was reclassified from regulatory assets to interest expense as a result of swap settlements. During the nine months ended September 30, 2011, $272 was reclassified from regulatory assets to interest expense as a result of swap settlements. The overall swap result was a loss of $1,372 for the three months ended September 30, 2011 and a loss of $1,627 for the nine months ended September 30, 2011. The Company expects to reclassify $348 from regulatory assets to interest expense as a result of swap settlements over the next 12 months.

The interest rate swap agreement contains provisions that require the Company to maintain a credit rating of at least BBB- with Standard & Poor's. If the Company's rating were to fall below this rating, it would be in violation of these provisions, and the counterparty to the derivative could request immediate payment if the derivative was in a liability position. The Company's interest rate swap was in a liability position as of September 30, 2011. If a violation were triggered on September 30, 2011, the Company would have been required to pay the counterparty approximately $3,016. The Company's current credit rating with Standard & Poor's is in compliance with this requirement.

The interest rate swap will expire on October 1, 2029. Other than the interest rate swap, the Company has no other derivative instruments.

6. Fair Value Measurements

The professional standards regarding fair value measurements establish a fair value hierarchy which indicates the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, commodity rates and yield curves. Level 3 inputs are not observable in the market and include management's own judgments about the assumptions market participants would use in pricing the asset or liability.

The Company has recorded its interest rate swap liability at fair value in accordance with the standards. The liability is recorded under the caption "Other deferred credits" on the balance sheet. The table below illustrates the fair value of the interest rate swap as of the end of the reporting period.

		Fair Value Measurements at Reporting Date Using
Description	September 30, 2011	Significant Other Observable Inputs (Level 2)
Interest Rate Swap	$2,695	$2,695

Fair values are measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation. These inputs to this calculation are deemed to be Level 2 inputs. The balance sheet carrying value reflects the Company's credit quality as of September 30, 2011. The rate used in discounting all prospective cash flows anticipated to be made under this swap reflects a representation of the yield to maturity for 30-year debt on utilities rated A- as of September 30, 2011. The use of the Company's credit rating resulted in a reduction in the fair value of the swap liability of $321 as of September 30, 2011. The fair value of the swap reflecting the Company's credit quality as of December 31, 2010 is shown in the table below.

		Fair Value Measurements at Reporting Date Using
Description	December 31, 2010	Significant Other Observable Inputs (Level 2)
Interest Rate Swap	$1,341	$1,341

The carrying amount of current assets and liabilities that are considered financial instruments approximates fair value as of the dates presented. The Company's long-term debt (including current maturities), with a carrying value of $85,078 at September 30, 2011, and $85,173 at December 31, 2010, had an estimated fair value of approximately $99,000 and $94,000, respectively. The estimated fair value of debt was calculated using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration and risk profile. The Company recognized its credit rating in determining the yield curve, and did not factor in third party credit enhancements including bond insurance on the 2004 PEDFA Series A and 2006 Industrial Development Authority issues, and the letter of credit on the 2008 PEDFA Series A issue.

Customers' advances for construction and notes receivable have carrying values at September 30, 2011 of $14,828 and $374, respectively. At December 31, 2010, customers' advances for construction and notes receivable had carrying values of $15,031 and $407, respectively. The relative fair values of these amounts cannot be accurately estimated since the timing of future payment streams is dependent upon several factors, including new customer connections, customer consumption levels and future rate increases.

7. Debt

	As of Sept. 30, 2011	As of Dec. 31, 2010
4.05% Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series A, due 2016	$ 2,350	$ 2,350
5.00% Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series A, due 2016	4,950	4,950
10.17% Senior Notes, Series A, due 2019	6,000	6,000
9.60% Senior Notes, Series B, due 2019	5,000	5,000
1.00% Pennvest Loan, due 2019	343	373
10.05% Senior Notes, Series C, due 2020	6,500	6,500
8.43% Senior Notes, Series D, due 2022	7,500	7,500
Variable Rate Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series 2008A, due 2029	12,000	12,000
4.75% Industrial Development Authority Revenue Bonds, Series 2006, due 2036	10,500	10,500
6.00% Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series 2008B, due 2038	14,935	15,000
5.00% Monthly Senior Notes, Series 2010A, due 2040	15,000	15,000
Total long-term debt	85,078	85,173
Less current maturities	(92)	(41)
Long-term portion	$ 84,986	$ 85,132

The 6.00% Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series 2008B, contain special redemption provisions. Under these provisions, representatives of deceased beneficial owners of the bonds have the right to request redemption prior to the stated maturity of all or part of their interest in the bonds. In May 2011, the Company retired $65 under these provisions. Current maturities include $50 for bonds that met the special provisions and have been tendered for redemption. The Company is not obligated to redeem any individual interest exceeding $25, or aggregate interest exceeding $300 in any annual period.

In April 2011, the Company renewed the $13,000 committed portion of one of its lines of credit, extending the revolving 2-year maturity date to May 2013 and lowering the interest rate from LIBOR plus 2.00% to LIBOR plus 1.40%. The Company allowed the $4,000 on-demand portion of this line of credit to expire.

In April 2011, the Company renewed its $5,000 committed line of credit and extended the maturity date to June 2012.

In May 2011, the Company renewed its $11,000 committed line of credit, extending the maturity date to May 2013 and lowering the interest rate from LIBOR plus 1.50% to LIBOR plus 1.25%. The Company is required to maintain a demand deposit account with an average monthly balance of $500 in order to retain this line of credit. The use of the funds in the account in excess of the $500 is not restricted in any way.

8. Rate Matters

From time to time, the Company files applications for rate increases with the Pennsylvania Public Utility Commission, or PPUC, and is granted rate relief as a result of such requests. The most recent rate request was filed by the Company on May 14, 2010. Effective November 4, 2010, the PPUC authorized an increase in rates designed to produce approximately $3,400 in additional annual revenues. The Company does not expect to file a base rate increase request in 2011.

9. Impact of Recent Accounting Pronouncements

In November 2008, the Securities and Exchange Commission (SEC) released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (IASB). In February 2010, the SEC expressed support for a single set of high-quality globally accepted accounting standards and established a work plan that sets forth specific areas and factors before transitioning to IFRS. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS with the expectation that any decision to adopt IFRS would allow issuers four to five years to prepare for a transition. The Company is currently assessing the impact that this potential change would have on its financial statements, and it will continue to monitor the development of the potential implementation of IFRS.

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04, “Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (ASU 2011-04). This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this update generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update is effective for interim and annual periods beginning after December 15, 2011. The Company is currently reviewing the effect this update will have on its financial statements.

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In thousands of dollars, except per share amounts)

Forward-looking Statements

This report on Form 10-Q contains certain matters which are not historical facts, but which are forward-looking statements. Words such as "may," "should," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. The Company intends for these forward-looking statements to qualify for safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include certain information relating to the Company's business strategy; statements including, but not limited to:

- expected profitability and results of operations;
- goals, priorities and plans for, and cost of, growth and expansion;
- strategic initiatives;
- availability of water supply;
- water usage by customers; and
- ability to pay dividends on common stock and the rate of those dividends.

The forward-looking statements in this report reflect what the Company currently anticipates will happen. What actually happens could differ materially from what it currently anticipates will happen. The Company does not intend to make any public announcement when forward-looking statements in this report are no longer accurate, whether as a result of new information, what actually happens in the future or for any other reason. Important matters that may affect what will actually happen include, but are not limited to:

- changes in weather, including drought conditions or extended periods of heavy rainfall;
- levels of rate relief granted;
- the level of commercial and industrial business activity within the Company's service territory;
- construction of new housing within the Company's service territory and increases in population;
- changes in government policies or regulations;
- the ability to obtain permits for expansion projects;
- material changes in demand from customers, including the impact of conservation efforts which may impact the demand of customers for water;
- changes in economic and business conditions, including interest rates, which are less favorable than expected;
- changes in, or unanticipated, capital requirements;
- changes in accounting pronouncements;
- changes in our credit rating or the market price of our common stock;
- the ability to obtain financing; and
- other matters set forth in Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

General Information

The business of the Company is to impound, purify to meet or exceed safe drinking water standards and distribute water. The Company operates within its franchised territory, which covers 39 municipalities within York County, Pennsylvania and seven municipalities within Adams County, Pennsylvania. The Company is regulated by the Pennsylvania Public Utility Commission, or PPUC, in the areas of billing, payment procedures, dispute processing, terminations, service territory, debt and equity financing and rate setting. The Company must obtain PPUC approval before changing any practices associated with the aforementioned areas. Water service is supplied through the Company's own distribution system. The Company obtains its water supply from both the South Branch and East Branch of the Codorus Creek, which together have an average daily flow of 73.0 million gallons per day. This combined watershed area is approximately 117 square miles. The Company has two reservoirs, Lake Williams and Lake Redman, which together hold up to approximately 2.2 billion gallons of water. The Company has a 15-mile pipeline from the Susquehanna River to Lake Redman which provides access to an additional supply of 12.0 million gallons of untreated water per day. As of September 30, 2011, the Company's average daily availability was 35.0 million gallons, and daily consumption was approximately 18.8 million gallons. The Company's service territory had an estimated population of 182,000 as of December 31, 2010. Industry within the Company's service territory is diversified, manufacturing such items as fixtures and furniture, electrical machinery, food products, paper, ordnance units, textile products, air conditioning systems, laundry detergent, barbells and motorcycles.

The Company's business is somewhat dependent on weather conditions, particularly the amount of rainfall. Revenues are particularly vulnerable to weather conditions in the summer months. Prolonged periods of hot and dry weather generally cause increased water usage for watering lawns, washing cars, and keeping golf courses and sports fields irrigated. Conversely, prolonged periods of dry weather could lead to drought restrictions from governmental authorities. Despite the Company’s adequate water supply, customers may be required to cut back water usage under such drought restrictions which would negatively impact our revenues. The Company has addressed some of this vulnerability by instituting minimum customer charges which are intended to cover fixed costs of operations under all likely weather conditions. During the first nine months of 2011, total per capita consumption was 1.4% less than the same period last year. The reduction was partially attributed to record rainfall, particularly during the third quarter. In September 2011, the Company recorded 10 more inches of rain than in September 2010. The total rainfall for the first nine months of 2011 was almost 19 inches more than the same period of 2010.

The Company’s business does not require large amounts of working capital and is not dependent on any single customer or a very few customers for a material portion of its business. Increases in revenues are generally dependent on the Company’s ability to obtain rate increases from the PPUC in a timely manner and in adequate amounts and to increase volumes of water sold through increased consumption and increases in the number of customers served. The Company continuously looks for acquisition and expansion opportunities both within and outside its current service territory. The Company also looks for additional opportunities to enter into bulk water contracts with municipalities and other entities to supply water.

Results of Operations

Three Months Ended September 30, 2011 Compared
With Three Months Ended September 30, 2010

Net income for the third quarter of 2011 was $2,364, a decrease of $306, or 11.5%, from net income of $2,670 for the same period of 2010. The primary contributing factors to the decrease were lower operating revenues, higher operating expenses primarily for pension and depreciation, increased employee retirement expense and higher interest expense on debt. The increased expenses were partially offset by reduced income taxes.

Water operating revenues for the three months ended September 30, 2011 decreased $36, or 0.3%, from $10,487 for the three months ended September 30, 2010 to $10,451 for the corresponding 2011 period. The primary reason for the decrease in revenues was reduced consumption. The total per capita volume of water sold in the third quarter of 2011 decreased compared to the corresponding 2010 period by approximately 2.9%. The decrease is mainly attributed to record rainfall in our service territory. The decrease was partially offset by a rate increase effective November 4, 2010 and a small increase in the customer base.

Operating expenses for the third quarter of 2011 increased $289, or 5.9%, from $4,883 for the third quarter of 2010 to $5,172 for the corresponding 2011 period. The increase was primarily due to higher pension expense of approximately $94 due to increased contributions, increased depreciation expense of approximately $71, higher rate case expense of approximately $31, a higher provision for doubtful accounts of approximately $31 and increased other expenses aggregating approximately $62.

Interest expense on debt for the third quarter of 2011 increased $120, or 10.1%, from $1,193 for the third quarter of 2010 to $1,313 for the corresponding 2011 period. The increase was primarily due to interest of $188 on the 5.00% Senior Notes, Series 2010A, issued in October of 2010. Offsetting the increase were lower interest payments of $63 on the Company’s lines of credit due to reduced borrowings and other lower interest expense of $5. During the third quarter of 2011, there were no borrowings under the lines of credit. During the third quarter of 2010, the average interest rate on the lines of credit was 2.33% on average debt outstanding of $11,537.

Allowance for funds used during construction increased $1, from $29 in the third quarter of 2010 to $30 in the 2011 period, due to a higher volume of eligible construction.

Other income (expenses), net for the third quarter of 2011 reflects increased expenses of $149 as compared to the same period of 2010. The increase was primarily due to higher employee retirement expense of approximately $162 due to mark to market accounting for certain retirement assets, and higher other expenses aggregating approximately $18. The increase in expense was partially offset by lower contributions of approximately $31.

Federal and state income taxes for the third quarter of 2011 decreased $287, or 17.5%, compared to the same period of 2010. The Company’s effective tax rate was 36.4% for the third quarter of 2011 and 38.0% for the third quarter of 2010. The decrease in the effective tax rate was due to the deductibility of bonus depreciation for state purposes in 2011.

Nine Months Ended September 30, 2011 Compared
With Nine Months Ended September 30, 2010

Net income for the first nine months of 2011 was $6,961, an increase of $108, or 1.6%, from net income of $6,853 for the same period of 2010. The primary contributing factors to the increase were higher water revenues which were partially offset by higher operating expenses, primarily for pension, depreciation and the provision for doubtful accounts, and higher interest on debt.

Water operating revenues for the nine months ended September 30, 2011 increased $1,297, or 4.4%, from $29,251 for the nine months ended September 30, 2010 to $30,548 for the corresponding 2011 period. The primary reason for the increase in revenues was a rate increase effective November 4, 2010. The total per capita volume of water sold in the first nine months of 2011 decreased compared to the corresponding 2010 period by approximately 1.4%. The decrease is mainly attributed to lower residential consumption due to record rainfall. Commercial and industrial consumption was also slightly lower than last year. The average number of customers served in the first nine months of 2011 increased as compared to the same period of 2010 by 207 customers, from 62,452 to 62,659 customers. For the remainder of the year, the Company expects revenues to remain consistent with the first nine months. Regulatory actions and weather patterns could impact results, although weather is typically not a significant factor during the fourth quarter.

Operating expenses for the first nine months of 2011 increased $1,194, or 8.3%, from $14,327 for the first nine months of 2010 to $15,521 for the corresponding 2011 period. The increase was primarily due to increased pension expense of approximately $281 due to increased contributions, increased depreciation expense of approximately $232 and a higher provision for doubtful accounts of approximately $224 due to additional inactive accounts. Also contributing to the increase were higher distribution system maintenance expense of approximately $114, salary and wage expense of approximately $113, and other expenses aggregating approximately $230. For the remainder of the year, depreciation expense is expected to continue to rise due to investment in plant, and other operating expenses are expected to remain consistent with the first nine months.

Interest expense on debt for the first nine months of 2011 increased $346, or 9.6%, from $3,597 for the first nine months of 2010 to $3,943 for the corresponding 2011 period. The increase was primarily due to interest of $563 on the 5.00% Senior Notes, Series 2010A, issued in October of 2010. Offsetting the increase were lower interest payments of $145 on the Company's lines of credit due to reduced borrowings, lower interest of $67 due to retirement of the 3.75% Industrial Development Authority Revenue Refunding Bonds, Series 1995, in June of 2010 and other lower interest expense of $5. During the first nine months of 2011, there were no borrowings under the lines of credit. The average interest rate on the lines of credit was 2.10% for the nine months ended September 30, 2010 on average debt outstanding of $9,328. For the remainder of the year, interest expense is expected to remain consistent with the first nine months.

Allowance for funds used during construction increased $29, from $51 for the first nine months of 2010 to $80 in the 2011 period, due to a higher volume of eligible construction. For the remainder of the year, allowance for funds used during construction is expected to remain consistent with the first nine months.

Other income (expenses), net for the first nine months of 2011 reflects increased expenses of $109 as compared to the same period of 2010. The increase was primarily due to higher employee retirement expense of approximately $63 due to mark to market accounting for certain retirement assets which was partially offset by life insurance proceeds. Also contributing to the increase were higher contributions of approximately $21 and increased other expenses aggregating approximately $25. In the fourth quarter, other income (expenses) will be largely determined by the change in market returns and discount rates.

Federal and state income taxes for the first nine months of 2011 decreased $431, or 10.2%, compared to the same period of 2010. The Company's effective tax rate was 35.4% for the first nine months of 2011 and 38.2% for the first nine months of 2010. The decrease in the effective tax rate was due to the deductibility of bonus depreciation for state purposes in 2011. The Company expects a lower effective tax rate to continue through the remainder of the year.

Rate Matters

See Note 8 to the financial statements.

Capital Expenditures

For the nine months ended September 30, 2011, the Company invested $6,794 in construction expenditures for routine items and upgrades to its water treatment facilities as well as various replacements of aging infrastructure. The Company was able to fund operating activities and construction expenditures using primarily internally-generated funds and proceeds from its stock purchase plans.

The Company anticipates construction expenditures for the remainder of 2011 of approximately $2,900. In addition to routine transmission and distribution projects, a portion of the anticipated expenditures will be for additional main extensions, further upgrades to water treatment facilities and various replacements of aging infrastructure. The

Company intends to use primarily internally-generated funds for the anticipated construction and fund the remainder through proceeds from our stock purchase plans, and line of credit borrowings, if needed. Customer advances and contributions are only expected to account for approximately 1% of funding requirements in 2011. We believe we have adequate availability under our lines of credit to meet our capital needs in 2011 and 2012.

Liquidity and Capital Resources

Cash
The Company manages its cash through a cash management account that is directly connected to a line of credit. Excess cash generated automatically pays down outstanding borrowings under the line of credit arrangement. If there are no outstanding borrowings, the cash is used as an earnings credit to reduce banking fees. Likewise, if additional funds are needed, besides what is generated internally, for payroll, to pay suppliers, or to pay debt service, funds are automatically borrowed under the line of credit. The cash balance of $3,861 as of September 30, 2011 represents the balance of the proceeds of the October 2010 long-term debt issue plus the funds from operations generated internally in the first nine months of 2011 primarily due to lower cash required for income taxes due to bonus depreciation. After the cash balance is fully utilized, the cash management facility is expected to provide the necessary liquidity and funding for our operations for the foreseeable future based on our past experience.

Accounts Receivable
Historically the Company has seen an upward trend in its accounts receivable balance. This trend is generally a result of increased revenues. Recently, the Company has noticed a decline in the timeliness of payments by its customers resulting in an increase in accounts receivable in excess of the increase in revenues. The Company has increased its allowance for doubtful accounts in consideration of this trend. If this trend continues, the Company may incur additional expenses for uncollectible accounts and experience a reduction in its internally-generated funds. The Company also made a one-time adjustment during the second quarter of 2011 to the allowance for inactive accounts that will likely be written off which resulted in a lower than expected accounts receivable balance. No further adjustments are expected in the fourth quarter of 2011.

Internally-generated Funds
The amount of internally-generated funds available for operations and construction depends on our ability to obtain timely and adequate rate relief, changes in regulations, our customers' water usage, weather conditions, customer growth and controlled expenses. In the first nine months of 2011, we generated $13,295 internally from operations as compared to $10,619 in the first nine months of 2010. The reduction in income taxes paid increased cash flow from operating activities.

Credit Lines
Historically, the Company has borrowed $15,000 to $20,000 under its lines of credit before refinancing with long-term debt or equity capital. As of September 30, 2011, the Company maintained unsecured lines of credit aggregating $29,000 with three banks. The first line of credit, in the amount of $13,000, is a committed line of credit with a revolving 2-year maturity (currently May 2013), and carries an interest rate of LIBOR plus 1.40%. The second line of credit, in the amount of $11,000, is a committed line of credit, which matures in May 2013 and carries an interest rate of LIBOR plus 1.25%. The third line of credit, in the amount of $5,000, is a committed line of credit, which matures in June 2012 and carries an interest rate of LIBOR plus 2.00%. The Company had no outstanding borrowings under any of its lines of credit as of September 30, 2011.

The credit and liquidity crisis which began in 2008 caused substantial volatility and uncertainty in the capital markets and in the banking industry and resulted in increased borrowing costs and reduced credit availability. Since then, the Company has experienced more stability as the economy recovers from the recession. Actual interest rates remain low and two of our banks recently reduced the interest rate on our lines of credit. One of the lines of credit continues to carry a commitment fee, although it has been reduced. We have taken steps to manage the risk of reduced credit availability such as maintaining primarily committed lines of credit that cannot be called on demand and obtaining a 2-year revolving maturity. Despite general improvements and actions we have taken, there is no guarantee that we will be able to obtain sufficient lines of credit with favorable terms in the future. In addition, if the Company is unable to refinance its line of credit borrowings with long-term debt or equity when necessary, we may have to eliminate or postpone capital expenditures. The Company was able to pay off its line of credit borrowings by issuing long-term debt in October 2010. We believe we will have adequate capacity under our current lines of credit to meet our financing needs throughout the remainder of the year and in 2012.

Long-term Debt

The Company's loan agreements contain various covenants and restrictions. We believe we were in compliance with all of these covenants and restrictions as of September 30, 2011. See Note 4 to the Company's Annual Report to Shareholders for the year ended December 31, 2010 for additional information regarding these restrictions.

The 6.00% Pennsylvania Economic Development Financing Authority Exempt Facilities Revenue Bonds, Series 2008B, contain special redemption provisions. Under these provisions, representatives of deceased beneficial owners of the bonds have the right to request redemption prior to the stated maturity of all or part of their interest in the bonds. In May 2011, the Company retired $65 under these provisions. Current maturities include $50 for bonds that met the special provisions and have been tendered for redemption. The Company is not obligated to redeem any individual interest exceeding $25, or aggregate interest exceeding $300 in any annual period.

The Company's debt (long-term debt plus current portion of long-term debt) as a percentage of the total capitalization, defined as total common stockholders' equity plus long-term debt (including current portion of long-term debt), was 47.4% as of September 30, 2011, compared with 48.3% as of December 31, 2010. While our debt load has trended upward over the years, we have historically matched increasing debt with increasing equity so that our debt to total capitalization ratio was nearly fifty percent. This capital structure has historically been acceptable to PPUC in that prudent debt costs and a fair return have been granted by the PPUC in rate filings. Due to our recent ability to generate more cash internally, we have been able to keep our ratio below fifty percent.

The Company has an effective "shelf" Registration Statement on Form S-3 on file with the Securities and Exchange Commission (SEC), pursuant to which the Company may offer an aggregate remaining amount of up to $25,000 of its common stock or debt securities subject to market conditions at the time of any such offering.

Deferred Income Taxes and Uncertain Tax Positions

The Company has seen an increase in its deferred income tax liability amounts over the last several years. This is primarily a result of the accelerated and bonus depreciation deduction available for federal tax purposes which creates differences between book and tax depreciation expense. We expect this trend to continue as we make significant investments in capital expenditures and as the tax code continues to extend bonus depreciation.

The Company has a substantial deferred income tax asset primarily due to the differences between the book and tax balances of the pension and deferred compensation plans. The Company does not believe a valuation allowance is required due to the expected generation of future taxable income during the periods in which those temporary differences become deductible. The Company has determined there are no uncertain tax positions that require recognition as of September 30, 2011.

Common Stock

Common stockholders' equity as a percent of the total capitalization was 52.6% as of September 30, 2011, compared with 51.7% as of December 31, 2010. It is the Company's intent to maintain a ratio near fifty percent. Under the Registration Statement previously mentioned, we have the ability to issue additional shares of our common stock, subject to market conditions at the time of any such offering.

Credit Rating

Our ability to maintain our credit rating depends, among other things, on adequate and timely rate relief, which we have been successful in obtaining, and our ability to fund capital expenditures in a balanced manner using both debt and equity. For the remainder of 2011, our objectives will be to continue to maximize our funds provided by operations and maintain the equity component of total capitalization.

Critical Accounting Estimates

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements. Our accounting policies require us to make subjective judgments because of the need to make estimates of matters that are inherently uncertain. Our most critical accounting estimates include regulatory assets and liabilities, revenue recognition and accounting for our pension plans. There has been no significant change in our accounting estimates or the method of estimation during the quarter ended September 30, 2011.

Off-Balance Sheet Arrangements

The Company does not use off-balance sheet transactions, arrangements or obligations that may have a material current or future effect on financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components of revenues or expenses. The Company does not use securitization of receivables or unconsolidated entities. The Company uses a derivative financial instrument, an interest rate swap agreement discussed in Note 5 to the financial statements, for risk management purposes. The Company does not engage in trading or other risk management activities, does not use other derivative financial instruments for any purpose, has no lease obligations, no guarantees and does not have material transactions involving related parties.

Impact of Recent Accounting Pronouncements

See Note 9 to the financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's operations are exposed to market risks primarily as a result of changes in interest rates under its lines of credit. The Company has unsecured lines of credit with three banks having a combined maximum availability of \$29,000. The first line of credit, in the amount of \$13,000, is a committed line of credit with a revolving 2-year maturity (currently May 2013), and carries an interest rate of LIBOR plus 1.40%. The Company had no outstanding borrowings under this line of credit as of September 30, 2011. The second line of credit, in the amount of \$11,000, is a committed line of credit, which matures in May 2013 and carries an interest rate of LIBOR plus 1.25%. This line of credit has a compensating balance requirement of \$500 (see Note 7 to the financial statements included herein). The Company had no outstanding borrowings under this line of credit as of September 30, 2011. The third line of credit, in the amount of \$5,000, is a committed line of credit, which matures in June 2012 and carries an interest rate of LIBOR plus 2.00%. The Company had no outstanding borrowings under this line of credit as of September 30, 2011. Other than lines of credit, the Company has long-term fixed rate debt obligations as discussed in Note 7 to the financial statements included herein and a variable rate Pennsylvania Economic Development Financing Authority (PEDFA) loan agreement described below.

In May 2008, the PEDFA issued \$12,000 aggregate principal amount of PEDFA Exempt Facilities Revenue Bonds, Series A (the “Bonds”). The proceeds of this bond issue were used to refund the \$12,000 PEDFA Exempt Facilities Revenue Bonds, Series B of 2004 which were refunded due to bond insurer downgrading issues. The PEDFA then loaned the proceeds to the Company pursuant to a variable interest rate loan agreement with a maturity date of October 1, 2029. The interest rate under this loan agreement averaged 0.16% during the three months ended September 30, 2011 and 0.22% during the nine months ended September 30, 2011. In connection with the loan agreement, the Company retained its interest rate swap agreement whereby the Company effectively exchanged its floating rate obligation for a fixed rate obligation. The purpose of the interest rate swap is to manage the Company’s exposure to fluctuations in the interest rate. If the interest rate swap agreement works as intended, the rate received on the swap should approximate the variable rate we pay on the Bonds, thereby minimizing our risk. See Note 5 to the financial statements included herein for additional information regarding the interest rate swap.

In addition to the interest rate swap agreement, the Company entered into a Reimbursement, Credit and Security Agreement with PNC Bank, National Association (“the bank”), dated as of May 1, 2008, in order to enhance the marketability of and to minimize the interest rate on the Bonds. This agreement initially provided for a three-year direct pay letter of credit issued by the bank to the trustee for the Bonds. The letter of credit currently expires May 6, 2013 and is reviewed annually for possible extensions. The Company’s responsibility under this agreement is to reimburse the bank on a timely basis for interest payments made to the bondholders and for any tendered Bonds that could not be remarketed. The Company has fourteen months from the time Bonds are tendered to reimburse the bank. If the direct pay letter of credit is not renewed, the Company would be required to pay the bank immediately for any tendered Bonds and reclassify a portion of the Bonds as current liabilities. In addition, the interest rate swap agreement would terminate causing a potential payment by the Company to the counterparty. Both the letter of credit and the swap agreement can potentially be transferred upon this type of event.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the Company's President and Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report are effective such that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company’s management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(b) Change in Internal Control over Financial Reporting

No change in the Company’s internal control over financial reporting occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II – OTHER INFORMATION

Item 6. Exhibits

Exhibit No.	Description
3	Amended and Restated Articles of Incorporation. Incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 4, 2010.
3.1	By-Laws. Incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 24, 2007.
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

	THE YORK WATER COMPANY	
Date: November 7, 2011	By:	/s/Jeffrey R. Hines Jeffrey R. Hines Principal Executive Officer
Date: November 7, 2011	By:	/s/Kathleen M. Miller Kathleen M. Miller Principal Financial and Accounting Officer

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