

SOUTH JERSEY INDUSTRIES INC

Form 10-Q

May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended March 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____

Commission File Number 1-6364

SOUTH JERSEY INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

New Jersey

(State of incorporation)

1 South Jersey Plaza, Folsom, NJ 08037

(Address of principal executive offices, including zip code)

(609) 561-9000

(Registrant's telephone number, including area code)

22-1901645

(IRS employer identification no.)

Common Stock

(\$1.25 par value per share)

(Title of each class)

New York Stock Exchange

(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

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. Yes 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 1, 2014 there were 32,978,971 shares of the registrant's common stock outstanding.

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Item 1. Unaudited Condensed Consolidated Financial Statements

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
 (In Thousands Except for Per Share Data)

	Three Months Ended March 31,		
	2014	2013	
Operating Revenues:			
Utility	\$210,329	\$173,651	
Nonutility	139,872	81,980	
Total Operating Revenues	350,201	255,631	
Operating Expenses:			
Cost of Sales - (Excluding depreciation)			
- Utility	103,077	77,156	
- Nonutility	125,061	75,145	
Operations	39,350	32,689	
Maintenance	3,259	3,422	
Depreciation	14,991	11,407	
Energy and Other Taxes	1,953	3,833	
Total Operating Expenses	287,691	203,652	
Operating Income	62,510	51,979	
Other Income and Expense	2,368	3,869	
Interest Charges	(7,084) (4,708)
Income Before Income Taxes	57,794	51,140	
Income Taxes	(11,869) (7,772)
Equity in Earnings (Loss) of Affiliated Companies	2,286	(31)
Income from Continuing Operations	48,211	43,337	
Loss from Discontinued Operations - (Net of tax benefit)	(313) (471)
Net Income	\$47,898	\$42,866	
Basic Earnings Per Common Share:			
Continuing Operations	\$1.47	\$1.36	
Discontinued Operations	(0.01) (0.01)
Basic Earnings Per Common Share	\$1.46	\$1.35	
Average Shares of Common Stock Outstanding - Basic	32,765	31,757	
Diluted Earnings Per Common Share:			
Continuing Operations	\$1.47	\$1.36	
Discontinued Operations	(0.01) (0.01)
Diluted Earnings Per Common Share	\$1.46	\$1.35	
Average Shares of Common Stock Outstanding - Diluted	32,842	31,811	
Dividends Declared Per Common Share	\$0.47	\$0.44	

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
 (In Thousands)

	Three Months Ended March 31,	
	2014	2013
Net Income	\$47,898	\$42,866
Other Comprehensive Income, Net of Tax:*		
Unrealized Gain (Loss) on Available-for-Sale Securities	62	(274)
Unrealized Gain on Derivatives - Other	66	66
Other Comprehensive (Loss) Income of Affiliated Companies	(18)	5,014
Other Comprehensive Income - Net of Tax*	110	4,806
Comprehensive Income	\$48,008	\$47,672

* Determined using a combined statutory tax rate of 41%.

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
 (In Thousands)

	Three Months Ended March 31,	
	2014	2013
Net Cash Provided by Operating Activities	\$49,232	\$55,886
Cash Flows from Investing Activities:		
Capital Expenditures	(60,254)	(40,604)
Net Proceeds from Sale of Restricted Investments in Margin Account	7,444	7,931
Investment in Long-Term Receivables	(2,053)	(1,947)
Proceeds from Long-Term Receivables	1,981	2,402
Purchase of Company Owned Life Insurance	(230)	(372)
Investment in Affiliate	—	(1,076)
Advances on Notes Receivable - Affiliate	(342)	(498)
Repayment of Notes Receivable - Affiliate	3,228	58,249
Net Cash (Used in) Provided by Investing Activities	(50,226)	24,085
Cash Flows from Financing Activities:		
Net Repayments of Short-Term Credit Facilities	(29,600)	(90,500)
Proceeds from Issuance of Long-Term Debt	30,000	—
Payments for Issuance of Long-Term Debt	(210)	(11)
Proceeds from Sale of Common Stock	5,157	7,244
Net Cash Provided by (Used in) Financing Activities	5,347	(83,267)
Net Increase (Decrease) in Cash and Cash Equivalents	4,353	(3,296)
Cash and Cash Equivalents at Beginning of Period	3,818	4,638
Cash and Cash Equivalents at End of Period	\$8,171	\$1,342

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
 (In Thousands)

	March 31, 2014	December 31, 2013
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	\$1,846,704	\$1,816,804
Accumulated Depreciation	(398,954	) (392,029
Nonutility Property and Equipment, at cost	495,433	486,332
Accumulated Depreciation	(57,968	) (52,009
Property, Plant and Equipment - Net	1,885,215	1,859,098
Investments:		
Available-for-Sale Securities	8,829	8,716
Restricted	35,670	43,115
Investment in Affiliates	80,324	78,273
Total Investments	124,823	130,104
Current Assets:		
Cash and Cash Equivalents	8,171	3,818
Accounts Receivable	362,675	253,566
Unbilled Revenues	53,841	47,594
Provision for Uncollectibles	(6,725	) (5,854
Notes Receivable - Affiliate	6,536	8,908
Natural Gas in Storage, average cost	15,299	57,786
Materials and Supplies, average cost	2,851	2,798
Deferred Income Taxes - Net	23,978	30,609
Prepaid Taxes	1,220	9,431
Derivatives - Energy Related Assets	58,123	56,327
Other Prepayments and Current Assets	25,248	17,915
Total Current Assets	551,217	482,898
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	309,290	296,081
Derivatives - Energy Related Assets	18,439	26,451
Unamortized Debt Issuance Costs	8,732	7,803
Notes Receivable-Affiliate	39,563	39,907
Contract Receivables	14,554	14,595
Notes Receivable	7,882	7,882
Other	60,086	60,036
Total Regulatory and Other Noncurrent Assets	458,546	452,755
Total Assets	\$3,019,801	\$2,924,855

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
 (In Thousands)

	March 31, 2014	December 31, 2013
Capitalization and Liabilities		
Equity:		
Common Stock	\$41,028	\$40,894
Premium on Common Stock	406,397	401,011
Treasury Stock (at par)	(162	) (186
Accumulated Other Comprehensive Loss	(20,650	) (20,760
Retained Earnings	438,429	406,041
Total Equity	865,042	827,000
Long-Term Debt	710,400	680,400
Total Capitalization	1,575,442	1,507,400
Current Liabilities:		
Notes Payable	324,300	353,900
Current Portion of Long-Term Debt	21,000	21,000
Accounts Payable	295,730	259,757
Customer Deposits and Credit Balances	15,112	15,546
Environmental Remediation Costs	27,184	16,695
Taxes Accrued	9,677	3,234
Derivatives - Energy Related Liabilities	89,892	77,993
Dividends Payable	15,510	—
Interest Accrued	6,219	6,363
Pension Benefits	1,241	1,275
Other Current Liabilities	6,858	9,210
Total Current Liabilities	812,723	764,973
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	321,827	319,368
Investment Tax Credits	307	360
Pension and Other Postretirement Benefits	58,776	57,370
Environmental Remediation Costs	96,708	106,734
Asset Retirement Obligations	41,925	41,687
Derivatives - Energy Related Liabilities	20,274	22,131
Derivatives - Other	7,890	6,676
Regulatory Liabilities	48,158	60,949
Finance Obligation	20,420	20,656
Other	15,351	16,551
Total Deferred Credits and Other Noncurrent Liabilities	631,636	652,482
Commitments and Contingencies (Note 11)		

Total Capitalization and Liabilities	\$3,019,801	\$2,924,855
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

GENERAL - South Jersey Industries, Inc. (SJI or the Company) currently provides a variety of energy related products and services primarily through the following subsidiaries:

South Jersey Gas Company (SJG) is a regulated natural gas utility. SJG distributes natural gas in the seven southernmost counties of New Jersey.

South Jersey Energy Company (SJE) acquires and markets natural gas and electricity to retail end users and provides total energy management services to commercial and industrial customers.

South Jersey Resources Group, LLC (SJRG) markets natural gas storage, commodity and transportation assets on a wholesale basis in the mid-Atlantic, Appalachian and southern states.

South Jersey Exploration, LLC (SJEX) owns oil, gas and mineral rights in the Marcellus Shale region of Pennsylvania.

Marina Energy, LLC (Marina) develops and operates on-site energy-related projects.

South Jersey Energy Service Plus, LLC (SJESP) services residential and small commercial HVAC systems, installs small commercial HVAC systems, provides plumbing services and services appliances under warranty via a subcontractor arrangement as well as on a time and materials basis.

BASIS OF PRESENTATION — The condensed consolidated financial statements include the accounts of SJI, its wholly-owned subsidiaries and subsidiaries in which SJI has a controlling interest. SJI eliminates all significant intercompany accounts and transactions. In management's opinion, the condensed consolidated financial statements reflect all normal and recurring adjustments needed to fairly present SJI's financial position, operating results and cash flows at the dates and for the periods presented. SJI's businesses are subject to seasonal fluctuations and, accordingly, this interim financial information should not be the basis for estimating the full year's operating results. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC), the accompanying unaudited condensed consolidated financial statements contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These financial statements should be read in conjunction with SJI's 2013 Annual Report on Form 10-K for a more complete discussion of the Company's accounting policies and certain other information.

Certain reclassifications have been made to the prior periods regulatory assets disclosure to conform to the current period presentation. The deferred pipeline integrity cost and Allowance for Funds Used During Construction ("AFUDC") - equity related deferrals previously included in "Other Regulatory Assets" were reclassified to the line items "Pipeline Integrity Cost" and "AFUDC - Equity Related Deferrals", respectively, in the regulatory asset table in Note 8.

REVENUE AND THROUGHPUT-BASED TAXES — SJG collects certain revenue-based energy taxes from its customers. Such taxes include New Jersey State Sales Tax and Public Utilities Assessment (PUA). State sales tax is recorded as a liability when billed to customers and is not included in revenue or operating expenses. The PUA is included in both utility revenue and cost of sales and totaled \$0.4 million for both the three months ended March 31, 2014 and 2013. In prior years, SJG had collected a throughput-based energy tax from customers in the form of a

Transitional Energy Facility Assessment (TEFA). The TEFA was eliminated effective January 1, 2014.

IMPAIRMENT OF LONG-LIVED ASSETS - SJI reviews the carrying amount of long-lived assets for possible impairment whenever events or changes in circumstances indicate that such amounts may not be recoverable. For the three months ended March 31, 2014 and 2013, no impairments were identified.

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GAS EXPLORATION AND DEVELOPMENT - The Company capitalizes all costs associated with gas property acquisition, exploration and development activities under the full cost method of accounting. Capitalized costs include costs related to unproved properties, which are not amortized until proved reserves are found or it is determined that the unproved properties are impaired. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. No impairment was recorded during the three months ended March 31, 2014 or 2013. As of both March 31, 2014 and December 31, 2013, \$8.9 million related to interests in proved and unproved properties in Pennsylvania, net of amortization, is included with Nonutility Property and Equipment and Other Noncurrent Assets on the condensed consolidated balance sheets.

TREASURY STOCK – SJI uses the par value method of accounting for treasury stock. As of March 31, 2014 and December 31, 2013, SJI held 129,929 and 148,890 shares of treasury stock, respectively. These shares are related to deferred compensation arrangements where the amounts earned are held in the stock of SJI.

INCOME TAXES — Deferred income taxes are provided for all significant temporary differences between the book and taxable bases of assets and liabilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 - “Income Taxes”. A valuation allowance is established when it is determined that it is more likely than not that a deferred tax asset will not be realized. Investment tax credits related to renewable energy facilities of Marina are recognized on the flow through method, which may result in variations in the customary relationship between income taxes and pre-tax income for interim periods.

NEW ACCOUNTING PRONOUNCEMENTS — Other than as described below, no new accounting pronouncement issued or effective during 2014 or 2013 had, or is expected to have, a material impact on the condensed consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update (ASU) 2013-11, Balance Sheet Presentation of an Unrecognized Income Tax Benefit for a Net Operating Loss or Tax Credit Carryforward. This ASU provides that a liability related to an unrecognized tax benefit should be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance did not have an impact on the Company's financial statement results.

2. STOCK-BASED COMPENSATION PLAN:

Under the Amended and Restated 1997 Stock-Based Compensation Plan, no more than 2,000,000 shares in the aggregate may be issued to SJI's officers (Officers), non-employee directors (Directors) and other key employees. The plan will terminate on January 26, 2015, unless terminated earlier by the Board of Directors. No options were granted or outstanding during the three months ended March 31, 2014 and 2013. No stock appreciation rights have been issued under the plan. During the three months ended March 31, 2014 and 2013, SJI granted 67,874 and 56,464 restricted shares, respectively, to Officers and other key employees. These restricted shares vest over a three-year period and are subject to SJI achieving certain market and earnings-based performance targets as compared to a peer group average, which can cause the actual amount of shares that ultimately vest to range from between 0% to 150% of the original share units granted.

Grants containing market-based performance targets use SJI's total shareholder return (TSR) relative to a peer group to measure performance. Grants containing earnings-based targets are based on SJI's earnings per share (EPS) growth rate relative to a peer group to measure performance.

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During the three months ended March 31, 2014 and 2013, SJI granted 11,610 and 12,285 restricted shares, respectively, to Directors. Shares issued to Directors vest over twelve months and contain no performance conditions. As a result, 100% of the shares granted generally vest.

See Note 2 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2013 for the related accounting policy.

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The following table summarizes the nonvested restricted stock awards outstanding at March 31, 2014 and the assumptions used to estimate the fair value of the awards:

	Grant Date	Shares Outstanding	Fair Value Per Share	Expected Volatility	Risk-Free Interest Rate	
Officers & Key Employees -	Jan. 2012 - TSR	18,640	\$51.23	22.5	% 0.43	%
	Jan. 2012 - EPS	18,640	\$56.93	N/A	N/A	
	Jan. 2013 - TSR	25,898	\$44.38	21.1	% 0.40	%
	Jan. 2013 - EPS	25,898	\$51.18	N/A	N/A	
	Jan. 2014 - TSR	32,686	\$44.32	20.0	% 0.80	%
	Jan. 2014 - EPS	32,686	\$54.44	N/A	N/A	
Directors -	Jan. 2014	11,610	\$54.51	N/A	N/A	

Expected volatility is based on the actual volatility of SJI's share price over the preceding three-year period as of the valuation date. The risk-free interest rate is based on the zero-coupon U.S. Treasury Bond, with a term equal to the three-year term of the Officers' and other key employees' restricted shares. As notional dividend equivalents are credited to the holders during the three-year service period, no reduction to the fair value of the award is required. As the Directors' restricted stock awards contain no performance conditions and dividends are paid or credited to the holder during the requisite service period, the fair value of these awards are equal to the market value of the shares on the date of grant.

The following table summarizes the total stock-based compensation cost for the the three months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,	
	2014	2013
Officers & Key Employees	\$581	\$573
Directors	158	191
Total Cost	739	764
Capitalized	(70	)(63
Net Expense	\$669	\$701

As of March 31, 2014, there was \$5.0 million of total unrecognized compensation cost related to nonvested stock-based compensation awards granted under the restricted stock plans. That cost is expected to be recognized over a weighted average period of 2.1 years.

The following table summarizes information regarding restricted stock award activity during the three months ended March 31, 2014, excluding accrued dividend equivalents:

	Officers & Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2014	94,192	19,617	\$50.73
Granted	67,874	11,610	\$50.13
Cancelled/Forfeited	(7,618) —	\$50.24

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Vested	—	(19,617) \$52.19
Nonvested Shares Outstanding, March 31, 2014	154,448	11,610	\$50.30

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Performance targets during the three-year vesting period were not attained for the January 2011 grant that had vested at December 31, 2013. As a result, no shares were awarded in 2014. During the three months ended March 31, 2013, SJI awarded 66,077 shares to its Officers and other key employees, which had vested at December 31, 2012, at a market value of \$3.3 million. Also, during the three months ended March 31, 2014 and 2013, SJI granted 11,610 and 12,285 shares to its Directors at a market value of \$0.6 million for each period. The Company has a policy of issuing new shares to satisfy its obligations under these plans; therefore, there are no cash payment requirements resulting from the normal operation of these plans. However, a change in control could result in such shares becoming nonforfeitable or immediately payable in cash. At the discretion of the Officers, Directors and other key employees, the receipt of vested shares can be deferred until future periods. These deferred shares are included in Treasury Stock on the condensed consolidated balance sheets.

3. DISCONTINUED OPERATIONS AND AFFILIATIONS:

Discontinued Operations consist of the environmental remediation activities related to the properties of South Jersey Fuel, Inc. (SJF) and the product liability litigation and environmental remediation activities related to the prior business of The Morie Company, Inc. (Morie). SJF is a subsidiary of Energy & Minerals, Inc. (EMI), an SJI subsidiary, which previously operated a fuel oil business. Morie is the former sand mining and processing subsidiary of EMI. EMI sold the common stock of Morie in 1996.

SJI conducts tests annually to estimate the environmental remediation costs for these properties.

Summarized operating results of the discontinued operations for the three months ended March 31, were (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2014	2013
Loss Before Income Taxes:		
Sand Mining	\$(380)	\$(72)
Fuel Oil	(102)	(652)
Income Tax Benefits	169	253
Loss from Discontinued Operations — Net	\$(313)	\$(471)
Earnings Per Common Share from Discontinued Operations — Net:		
Basic and Diluted	\$(0.01)	\$(0.01)

AFFILIATIONS — The following affiliated entities are accounted for under the equity method:

Energenic – US, LLC (Energenic) - Marina and a joint venture partner formed Energenic, in which Marina has a 50% equity interest. Energenic develops and operates on-site, self-contained, energy-related projects.

Potato Creek, LLC (Potato Creek) - SJI and a joint venture partner formed Potato Creek, in which SJI has a 30% equity interest. Potato Creek owns and manages the oil, gas and mineral rights of certain real estate in Pennsylvania.

LVE Energy Partners, LLC (LVE) - In March 2013, substantially all of the assets of Marina's joint venture, LVE, an entity in which Marina had a 50% equity interest, were sold. As a result of the transaction, Marina received cash proceeds of \$57.9 million in 2013. LVE was dissolved prior to December 31, 2013. See Note 11.

During the first three months of 2014, the Company received net repayments from unconsolidated affiliates of \$2.9 million. During the first three months of 2013, the Company made investments in, and provided net advances to, unconsolidated affiliates of \$1.1 million, excluding the cash proceeds related to the sale of LVE as discussed above. As of March 31, 2014 and December 31, 2013, the outstanding balance on these Notes Receivable – Affiliate was \$46.1 million and \$48.8 million, respectively. These notes are secured by property, plant and equipment of the affiliates, accrue interest at 7.5% and are to be repaid through 2025.

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SJI holds significant variable interests in these entities but is not the primary beneficiary. Consequently, these entities are accounted for under the equity method because SJI does not have both a) the power to direct the activities of the entity that most significantly impact the entity's economic performance and b) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. As of March 31, 2014, the Company had a net asset of approximately \$79.5 million included in Investment in Affiliates and Other Noncurrent Liabilities on the condensed consolidated balance sheets related to equity method investees, in addition to Notes Receivable – Affiliate as discussed above. SJI's maximum exposure to loss from these entities as of March 31, 2014 is limited to its combined equity contributions and the Notes Receivable-Affiliate in the amount of \$125.6 million plus the guarantees discussed in Note 11.

4. COMMON STOCK:

The following shares were issued and outstanding:

	2014
Beginning Balance, January 1	32,715,042
New Issues During the Period:	
Dividend Reinvestment Plan	95,662
Stock-Based Compensation Plan	11,610
Ending Balance, March 31	32,822,314

The par value (\$1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately \$5.4 million was recorded in Premium on Common Stock.

EARNINGS PER COMMON SHARE (EPS) — Basic EPS is based on the weighted-average number of common shares outstanding. The incremental shares required for inclusion in the denominator for the diluted EPS calculation were 77,224 and 53,574 for the three months ended March 31, 2014 and 2013, respectively. These shares relate to SJI's restricted stock as discussed in Note 2.

DIVIDEND REINVESTMENT PLAN (DRP) —The Company offers a DRP which allows participating shareholders to purchase shares of SJI common stock by automatic reinvestment of dividends or optional purchases. Shares of common stock offered by the DRP have been issued directly by SJI from its authorized but unissued shares of common stock. The Company raised \$5.2 million and \$7.2 million of equity capital through the DRP during the three months ended March 31, 2014 and 2013, respectively.

5. FINANCIAL INSTRUMENTS:

RESTRICTED INVESTMENTS — In accordance with the terms of certain Marina and SJG loan agreements, unused proceeds are required to be escrowed pending approval of construction expenditures. As of March 31, 2014 and December 31, 2013, the escrowed proceeds, including interest earned, totaled \$1.4 million and \$1.3 million, respectively.

The Company maintains margin accounts with selected counterparties to support its risk management activities. The balances required to be held in these margin accounts increase as the net value of the outstanding energy related contracts with the respective counterparties decrease. As of March 31, 2014 and December 31, 2013, the balances in these accounts totaled \$34.3 million and \$41.8 million, respectively. The carrying amounts of the Restricted Investments approximate their fair values at March 31, 2014 and December 31, 2013, which would be included in Level 1 of the fair value hierarchy (See Note 13 - Fair Value of Financial Assets and Financial Liabilities).

LONG-TERM RECEIVABLES — SJG provides financing to customers for the purpose of attracting conversions to natural gas heating systems from competing fuel sources. The terms of these loans call for customers to make monthly payments over a period of up to five years with no interest. The carrying amounts of such loans were \$15.0 million as of both March 31, 2014 and December 31, 2013. The current portion of these receivables is reflected in Accounts Receivable and the non-current portion is reflected in Contract Receivables on the condensed consolidated balance sheets. The carrying amounts noted above are net of unamortized discounts resulting from imputed interest in the amount of \$1.3 million as of both March 31, 2014 and December 31, 2013. The annual amortization to interest is not material to the Company's condensed consolidated financial statements. The carrying amounts of these receivables approximate their fair value at March 31, 2014 and December 31, 2013, which would be included in Level 2 of the fair value hierarchy (See Note 13 - Fair Value of Financial Assets and Financial Liabilities).

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CREDIT RISK - As of March 31, 2014, approximately \$14.6 million, or 19.0%, of the current and noncurrent Derivatives – Energy Related Assets are with a single, investment-grade rated counterparty.

FINANCE OBLIGATION - During 2010, ACB Energy Partners LLC (ACB), a wholly-owned subsidiary of Energenic, of which Marina has a 50% equity interest, completed construction of a combined heat and power generating facility to serve, under an energy services agreement, a thermal plant owned by Marina. Construction period financing was provided by Marina. As substantially all of the costs of constructing the facility were funded by the financing provided by Marina, Marina was considered the owner of the facility for accounting purposes during the construction period. When an entity is considered the accounting owner during the construction period, a sale of the asset effectively occurs when construction of the asset is completed. However, due to its continuing involvement in the facility through its equity interest in Energenic, Marina continues to be considered the owner of the facility for accounting purposes under ASC Topic 360 Property, Plant and Equipment. As a result, the transaction is being accounted for as a financing arrangement under ASC Topic 840 Leases and therefore the Company has included costs to construct the facility within Nonutility Property, Plant and Equipment on the condensed consolidated balance sheets of \$23.7 million as of both March 31, 2014 and December 31, 2013. In addition, the Company included repayments from ACB to Marina on the construction loan within the Finance Obligation on the condensed consolidated balance sheets. Marina does not have a fixed payment obligation to ACB; as a result, the Finance Obligation is classified as a noncurrent liability on the condensed consolidated balance sheets. The costs to construct the facility and the repayments of the construction loan are amortized over the term of the energy services agreement. The impact on the condensed consolidated statements of income is not significant. As a result, the Company recorded \$20.4 million and \$20.7 million, net of amortization, within Finance Obligation on the condensed consolidated balance sheets at March 31, 2014 and December 31, 2013, respectively.

FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE - The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The carrying amounts of SJI's financial instruments approximate their fair values at March 31, 2014 and December 31, 2013, except as noted below. For Long-Term Debt, in estimating the fair value, we use the present value of remaining cash flows at the balance sheet date. We based the estimates on interest rates available to SJI at the end of each period for debt with similar terms and maturities (Level 2 in the fair value hierarchy, see Note 13 - Fair Value of Financial Assets and Financial Liabilities). The estimated fair values of SJI's long-term debt, including current maturities, as of March 31, 2014 and December 31, 2013, were \$759.3 million and \$713.2 million, respectively. The carrying amounts of SJI's long-term debt, including current maturities, as of March 31, 2014 and December 31, 2013, were \$731.4 million and \$701.4 million, respectively.

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6. SEGMENTS OF BUSINESS:

SJI operates in several different reportable operating segments. These segments are as follows:

Gas utility operations (SJG) consists primarily of natural gas distribution to residential, commercial and industrial customers.

Wholesale energy operations include the activities of SJRG and SJEX.

SJE is involved in both retail gas and retail electric activities.

Retail gas and other operations include natural gas acquisition and transportation service business lines.

Retail electric operations consist of electricity acquisition and transportation to commercial and industrial customers.

On-site energy production consists of Marina's thermal energy facility and other energy-related projects.

Appliance service operations includes SJESP's servicing of appliances under warranty via a subcontractor arrangement as well as on a time and materials basis.

In the first quarter of 2014, SJI began grouping its non-utility operations into two areas: Energy Group and Energy Services. Energy Group includes wholesale energy, retail gas and other, and retail electric operations. Energy Services includes on-site energy production and appliance service operations. Due to this grouping, some of the Company's prior period numbers were recast to conform with the current period presentation. However, no changes were made to the specific operating segments. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are treated as if the sales or transfers were to third parties at current market prices.

Information about SJI's operations in different reportable operating segments is presented below (in thousands):

	Three Months Ended March 31,	
	2014	2013
Operating Revenues:		
Gas Utility Operations	\$210,545	\$174,098
Energy Group:		
Wholesale Energy Operations	35,372	6,216
Retail Gas and Other Operations	51,506	34,113
Retail Electric Operations	40,393	30,729
Subtotal Energy Group	127,271	71,058
Energy Services:		
On-Site Energy Production	11,346	9,096
Appliance Service Operations	2,654	3,308
Subtotal Energy Services	14,000	12,404
Corporate & Services	7,871	8,480
Subtotal	359,687	266,040
Intersegment Sales	(9,486)	(10,409)
Total Operating Revenues	\$350,201	\$255,631

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	Three Months Ended March 31,	
	2014	2013
Operating Income:		
Gas Utility Operations	\$63,440	\$57,795
Energy Group:		
Wholesale Energy Operations	(1,655	) (5,157
Retail Gas and Other Operations	1,968	28
Retail Electric Operations	(54	) 464
Subtotal Energy Group	259	(4,665
Energy Services:		
On-Site Energy Production	(1,260	) (1,173
Appliance Service Operations	(95	) (14
Subtotal Energy Services	(1,355	) (1,187
Corporate and Services	166	36
Total Operating Income	\$62,510	\$51,979
Depreciation and Amortization:		
Gas Utility Operations	\$12,676	\$11,024
Energy Group:		
Wholesale Energy Operations	40	51
Retail Gas and Other Operations	22	22
Subtotal Energy Group	62	73
Energy Services:		
On-Site Energy Production	5,775	3,012
Appliance Service Operations	67	74
Subtotal Energy Services	5,842	3,086
Corporate and Services	219	225
Total Depreciation and Amortization	\$18,799	\$14,408
Interest Charges:		
Gas Utility Operations	\$4,342	\$2,961
Energy Group:		
Wholesale Energy Operations	121	52
Retail Gas and Other Operations	126	76
Subtotal Energy Group	247	128
Energy Services:		
On-Site Energy Production	2,128	1,403
Corporate and Services	1,850	1,508
Subtotal	8,567	6,000
Intersegment Borrowings	(1,483) (1,292
Total Interest Charges	\$7,084	\$4,708

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	Three Months Ended	
	March 31,	2013
	2014	
Income Taxes:		
Gas Utility Operations	\$22,527	\$20,771
Energy Group:		
Wholesale Energy Operations	(553	) (1,981
Retail Gas and Other Operations	936	272
Retail Electric Operations	(22	) 190
Subtotal Energy Group	361	(1,519
Energy Services:		
On-Site Energy Production	(11,025	) (11,564
Appliance Service Operations	(23	) 4