SOUTH JERSEY INDUSTRIES INC
Form 10-Q
November 08, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

o 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	22-1901645
(State of incorporation)	(IRS employer identification no.)

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)

Common Stock ($1.25 par value per share)	New York Stock Exchange
(Title of each class)	(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 x No o

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 x No o

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	x		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 1, 2010 there were 29,872,825 shares of the registrant’s common stock outstanding.

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In Thousands Except for Per Share Data)

	Three Months Ended September 30, 2010	2009
Operating Revenues:		
Utility	$56,839	$55,958
Nonutility	103,828	71,129
Total Operating Revenues	160,667	127,087
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	28,534	31,377
- Nonutility	96,279	63,751
Operations	21,977	20,044
Maintenance	2,847	2,301
Depreciation	8,851	7,880
Energy and Other Taxes	1,642	1,649
Total Operating Expenses	160,130	127,002
Operating Income	537	85
Other Income and Expense	648	294
Interest Charges	(6,276)	(5,298)
Loss Before Income Taxes	(5,091)	(4,919)
Income Taxes	7,427	3,206
Equity in Loss of Affiliated Companies	(895)	(314)
Income (Loss) from Continuing Operations	1,441	(2,027)
Loss from Discontinued Operations - (Net of tax benefit)	(133)	(16)
Net Income (Loss)	1,308	(2,043)
Less: Net Loss Attributable to Noncontrolling Interest in Subsidiaries	-	169
Net Income (Loss) - Attributable to South Jersey Industries, Inc. Shareholders	$1,308	$(1,874)
Amounts Attributable to South Jersey Industries, Inc. Shareholders		

Income (Loss) from Continuing Operations	$1,441	$(1,858)
Loss from Discontinued Operations - (Net of tax benefit)	(133)	(16)
Net Income (Loss) - Attributable to South Jersey Industries, Inc. Shareholders	$1,308	$(1,874)
Basic Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:		
Continuing Operations	$0.048	$(0.062)
Discontinued Operations	(0.004)	(0.001)
Basic Earnings Per Common Share	$0.044	$(0.063)
Average Shares of Common Stock Outstanding - Basic	29,873	29,796
Diluted Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:		
Continuing Operations	$0.048	$(0.062)
Discontinued Operations	(0.004)	(0.001)
Diluted Earnings Per Common Share	$0.044	$(0.063)
Average Shares of Common Stock Outstanding - Diluted	30,000	29,796
Dividends Declared per Common Share (Note 4)	$0.000	$0.298

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 INCOME (UNAUDITED)
(In Thousands Except for Per Share Data)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating Revenues:		
Utility	$314,081	$360,522
Nonutility	327,517	263,224
Total Operating Revenues	641,598	623,746
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	168,531	223,876
- Nonutility	287,974	227,392
Operations	68,013	65,034
Maintenance	8,448	6,162
Depreciation	25,585	23,169
Energy and Other Taxes	8,462	8,483
Total Operating Expenses	567,013	554,116
Operating Income	74,585	69,630
Other Income and Expense	2,150	638
Interest Charges	(16,906)	(14,303)
Income Before Income Taxes	59,829	55,965
Income Taxes	(14,809)	(20,068)
Equity in Loss of Affiliated Companies	(3,470)	(1,247)
Income from Continuing Operations	41,550	34,650
Loss from Discontinued Operations - (Net of tax benefit)	(263)	(58)
Net Income	41,287	34,592
Less: Net Loss Attributable to Noncontrolling Interest in Subsidiaries	-	145
Net Income - Attributable to South Jersey Industries, Inc. Shareholders	$41,287	$34,737

Amounts Attributable to South Jersey Industries, Inc. Shareholders		
Income from Continuing Operations	$41,550	$34,795
Loss from Discontinued Operations - (Net of tax benefit)	(263)	(58)
Net Income - Attributable to South Jersey Industries, Inc. Shareholders	$41,287	$34,737
Basic Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:		
Continuing Operations	$1.392	$1.168
Discontinued Operations	(0.009)	(0.002)
Basic Earnings Per Common Share	$1.383	$1.166
Average Shares of Common Stock Outstanding - Basic	29,857	29,782
Diluted Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:		
Continuing Operations	$1.387	$1.164
Discontinued Operations	(0.009)	(0.002)
Diluted Earnings Per Common Share	$1.378	$1.162
Average Shares of Common Stock Outstanding - Diluted	29,962	29,885
Dividends Declared per Common Share	$0.990	$0.893

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 September 30, 2010	Three Months Ended September 30, 2009
Net Income (Loss)	$1,308	$(2,043)
Other Comprehensive Loss, Net of Tax:*		
Unrealized Gain on Available-for-Sale Securities	283	344
Unrealized Loss on Derivatives - Other	(367)	(339)
Other Comprehensive Loss of Affiliated Companies	(54)	(600)
Other Comprehensive Loss - Net of Tax*	(138)	(595)
Comprehensive Income (Loss)	1,170	(2,638)
Less: Comprehensive Loss Attributable to Noncontrolling Interest in Subsidiaries	-	169
Comprehensive Income (Loss) Attributable to South Jersey Industries, Inc.	$1,170	$(2,469)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net Income	$41,287	$34,592
Other Comprehensive (Loss) Income, Net of Tax:*		
Unrealized Gain on Available-for-Sale Securities	162	441
Unrealized (Loss) Gain on Derivatives - Other	(633)	605
Other Comprehensive (Loss) Income of Affiliated Companies	(190)	1,800
Other Comprehensive (Loss) Income - Net of Tax*	(661)	2,846
Comprehensive Income	40,626	37,438
Less: Comprehensive Loss Attributable to Noncontrolling Interest in Subsidiaries	-	145
Comprehensive Income Attributable to South Jersey Industries, Inc.	$40,626	$37,583

* 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)

	Nine Months Ended September 30, 2010	2009
Net Cash Provided by Operating Activities	$120,840	$121,591
Cash Flows from Investing Activities:		
Capital Expenditures	(101,564)	(61,314)
Net (Purchase of) Proceeds from Restricted Investments in Margin Account	(21,793)	28,958
Investment in Long-Term Receivables	(2,009)	(3,486)
Proceeds from Long-Term Receivables	1,213	3,633
Purchase of Company Owned Life Insurance	(4,276)	(4,444)
Investment in Affiliate	(2,700)	(2,436)
Advances on Notes Receivable - Affiliate	(61,783)	(11,647)
Repayment of Notes Receivable - Affiliate	3,566	1,100
Other	-	175
Net Cash Used in Investing Activities	(189,346)	(49,461)
Cash Flows from Financing Activities:		
Net Borrowings from (Repayments of) Lines of Credit	27,600	(56,750)
Proceeds from Issuance of Long-Term Debt	60,000	-
Principal Repayments of Long-Term Debt	-	(100)
Payments for Issuance of Long-Term Debt	(1,016)	(96)
Dividends on Common Stock	(19,716)	(17,729)
Net Cash Provided by (Used in) Financing Activities	66,868	(74,675)
Net Decrease in Cash and Cash Equivalents	(1,638)	(2,545)
Cash and Cash Equivalents at Beginning of Period	3,823	5,775
Cash and Cash Equivalents at End of Period	$2,185	$3,230

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)

	September 30, 2010	December 31, 2009
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$1,352,935	$1,275,792
Accumulated Depreciation	(331,979)	(314,627)
Nonutility Property and Equipment, at cost	133,549	132,119
Accumulated Depreciation	(22,142)	(20,212)
Property, Plant and Equipment - Net	1,132,363	1,073,072
Investments:		
Available-for-Sale Securities	6,297	5,958
Restricted	27,008	5,215
Investment in Affiliates	6,671	2,483
Total Investments	39,976	13,656
Current Assets:		
Cash and Cash Equivalents	2,185	3,823
Accounts Receivable	131,845	141,109
Unbilled Revenues	19,240	58,598
Provision for Uncollectibles	(7,665)	(6,268)
Notes Receivable - Affiliate	1,110	502
Natural Gas in Storage, average cost	99,052	99,697
Materials and Supplies, average cost	4,491	6,877
Prepaid Taxes	48,513	20,093
Derivatives - Energy Related Assets	40,374	36,512
Other Prepayments and Current Assets	11,980	7,412
Total Current Assets	351,125	368,355
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	245,477	240,462
Derivatives - Energy Related Assets	11,302	11,585
Unamortized Debt Issuance Costs	7,527	6,788
Notes Receivables-Affiliates	99,417	30,838
Contract Receivables	12,421	13,544
Other	26,501	23,708

Total Regulatory and Other Noncurrent Assets	402,645	326,925
Total Assets	$1,926,109	$1,782,008

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)

	September 30, 2010	December 31, 2009
Capitalization and Liabilities		
Equity:		
Common Stock	$37,341	$37,245
Premium on Common Stock	255,968	254,503
Treasury Stock (at par)	(178)	(183)
Accumulated Other Comprehensive Loss	(20,130)	(19,469)
Retained Earnings	283,217	271,505
Total South Jersey Industries, Inc. Shareholders' Equity	556,218	543,601
Noncontrolling Interest in Subsidiaries	-	963
Total Equity	556,218	544,564
Long-Term Debt	285,000	312,793
Total Capitalization	841,218	857,357
Current Liabilities:		
Notes Payable	224,200	196,600
Current Portion of Long-Term Debt	121,400	35,119
Accounts Payable	107,381	123,921
Customer Deposits and Credit Balances	22,031	14,128
Environmental Remediation Costs	23,595	23,639
Taxes Accrued	5,648	6,518
Derivatives - Energy Related Liabilities	54,194	28,260
Deferred Income Taxes - Net	7,594	19,897
Deferred Contract Revenues	6,164	6,081
Dividends Payable	9,858	-
Interest Accrued	5,065	6,211
Pension and Other Postretirement Benefits	1,109	1,109
Other Current Liabilities	16,776	17,301
Total Current Liabilities	605,015	478,784
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	247,936	215,346
Investment Tax Credits	1,285	1,518
Pension and Other Postretirement Benefits	65,296	69,141
Environmental Remediation Costs	48,602	49,803

Asset Retirement Obligations	23,419	23,229
Derivatives - Energy Related Liabilities	13,389	10,931
Derivatives - Other	12,053	5,823
Regulatory Liabilities	51,013	50,193
Other	16,883	19,883
Total Deferred Credits and Other Noncurrent Liabilities	479,876	445,867
Commitments and Contingencies (Note 11)		
Total Capitalization and Liabilities	$1,926,109	$1,782,008

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

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

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 Energy Service Plus, LLC (SJESP) installs residential and small commercial HVAC systems, provides plumbing services and services appliances via the sale of appliance service programs.

BASIS OF PRESENTATION — The condensed consolidated financial statements include the accounts of SJI, its wholly owned subsidiaries and subsidiaries in which we have a controlling interest. All significant intercompany accounts and transactions have been eliminated. In management’s opinion, the condensed consolidated financial statements reflect all normal and recurring adjustments needed to fairly present SJI’s financial position and operating results 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, 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 2009 Annual Report on Form 10-K for a more complete discussion of the Company’s accounting policies and certain other information.

Marina and a joint venture partner formed AC Landfill Energy, LLC (ACLE) and WC Landfill Energy, LLC (WCLE) to develop and install methane-to-electric power generation systems at certain county-owned landfills. Prior to January 1, 2010, the Company accounted for these entities as consolidated subsidiaries. In June 2009, the FASB issued new accounting guidance on the consolidation of variable interest entities (VIEs) which was effective for fiscal years beginning after November 15, 2009. The new accounting guidance for VIEs considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE.

Marina and the joint venture partner of ACLE and WCLE share the executive board seats and their voting rights equally and equally approve the annual budgets of both entities. Based on the shared control of operations, management concluded as of January 1, 2010 that the Company is no longer the primary beneficiary of ACLE and WCLE as defined by the new accounting guidance. As a result, ACLE and WCLE are no longer accounted for as consolidated subsidiaries. As of September 30, 2010, ACLE and WCLE are included with other equity investments in Investment in Affiliates on the condensed consolidated balance sheet. The results of operations of ACLE and WCLE for the three and nine months ended September 30, 2010 are included in Equity in Loss of Affiliated Companies on the condensed consolidated statements of income. The adoption of this guidance modified our financial statement presentation, but did not have an impact on our financial statement results.

REVENUE BASED TAXES — SJI collects certain revenue-based energy taxes from customers. Such taxes include New Jersey State Sales Tax, Transitional Energy Facility Assessment (TEFA) 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. TEFA and PUA are included in both utility revenue and cost of sales and totaled $0.9 million and $1.0 million for the three months ended September 30, 2010 and 2009, respectively, and $5.7 million and $6.3 million for the nine months ended September 30, 2010 and 2009, respectively.

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CAPITALIZED INTEREST — SJG capitalizes interest on construction at the rate of return on rate base utilized by the New Jersey Board of Public Utilities (BPU) to set rates in its last base rate proceeding. Marina capitalizes interest on construction projects in progress based on the actual cost of borrowed funds. SJG's amounts are included in Utility Plant and Marina's amounts are included in Nonutility Property and Equipment on the condensed consolidated balance sheets. Interest Charges are presented net of capitalized interest on the condensed consolidated statements of income. The amount of interest capitalized by SJI for the three and nine months ended September 30, 2010 and 2009 was not significant.

DERIVATIVE INSTRUMENTS —The Company uses a variety of derivative instruments to limit its exposure to market risk in accordance with strict corporate guidelines (See Note 12). These contracts, which have not been designated as hedging instruments under GAAP, are measured at fair value and recorded in Derivatives — Energy Related Assets or Derivatives — Energy Related Liabilities on the condensed consolidated balance sheets. The net unrealized pre-tax gains and losses for these energy related commodity contracts are included with realized gains and losses in Operating Revenues – Nonutility.

The Company has also entered into interest rate derivatives to hedge exposure to increasing interest rates and the impact of those rates on cash flows of variable-rate debt. These interest rate derivatives, some of which have been designated as hedging instruments under GAAP, are measured at fair value and recorded in Derivatives-Other on the condensed consolidated balance sheets. The fair value represents the amount SJI would have to pay the counterparty to terminate these contracts as of those dates.

The interest rate derivatives that have been designated as cash flow hedges have been determined to be highly effective. Therefore, the changes in fair value of the effective portion of these interest rate swaps along with the cumulative unamortized costs, net of taxes, have been recorded in Accumulated Other Comprehensive Loss. These unrealized gains and losses will be reclassified into earnings when the hedged forecasted cash flows of the related variable-rate debt occurs, or when it is probable that they will not occur. The ineffective portion of these swaps have been included in Interest Charges.

The unrealized gains and losses on the interest rate derivatives that have not been designated as cash flow hedges have also been included in Interest Charges. However, for selected interest rate derivatives at SJG, management believes that, subject to BPU approval, the market value upon termination can be recovered in rates and therefore these unrealized losses have been included in Other Regulatory Assets in the condensed consolidated balance sheets.

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. As of September 30, 2010 and December 31, 2009, $3.5 million related to the acquisition of interests in proved and unproved properties in Pennsylvania is included with Nonutility Property and Equipment on the condensed consolidated balance sheets, respectively.

TREASURY STOCK – SJI uses the par value method of accounting for treasury stock. As of September 30, 2010 and December 31, 2009, SJI held 142,585 and 146,028 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 basis of assets and liabilities in accordance with FASB 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 the non-regulated entities 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 2009 and 2010 had, or is expected to have, a material impact on the condensed consolidated financial statements.

In June 2009, the FASB issued new accounting guidance on the consolidation of variable interest entities (VIEs). Accordingly, companies needed to carefully reconsider previous conclusions, including (1) whether an entity is a VIE, (2) whether the company is the VIE's primary beneficiary, and (3) what type of financial statement disclosures are required. The new guidance was effective for fiscal years beginning after November 15, 2009. As a result of adopting this guidance, we have deconsolidated ACLE and WCLE as of January 1, 2010 due to the shared control between the Company and the joint venture partner as discussed under "Basis of Presentation" above. Beginning January 1, 2010, ACLE and WCLE are reported using the equity method of accounting. The adoption of this guidance modified our financial statement presentation, but did not have an impact on our financial statement results.

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HEALTH CARE LEGISLATION – In March of 2010, the President of the United States signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act (HR 3590) and the Health Care Education and Affordability Reconciliation Act (HR 4872) (the "Acts"). The Acts contain provisions which could impact our accounting for retiree medical benefits in future periods. However, the extent of that impact, if any, cannot be determined until regulations are promulgated under the Acts and additional interpretations of the Acts become available. Based on the analysis to date of the provision in the Acts in which the impacts are reasonably determinable, a re-measurement of our Other Postretirement Benefits liability is not required at this time. See Note 11 to the Financial Statements in Item 8 of SJI's Form 10-K as of December 31, 2009 for additional information related to SJI's pension and other postretirement benefits.

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 nine months ended September 30, 2010 and 2009. No stock appreciation rights have been issued under the plan. During the nine months ended September 30, 2010 and 2009, SJI granted 52,940 and 41,437 restricted shares to Officers and other key employees, respectively. These restricted shares vest over a three-year period and are subject to SJI achieving certain market-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. During the nine months ended September 30, 2010 and 2009, SJI granted 16,700 and 9,559 restricted shares to Directors, respectively. Shares issued to Directors vest over a three-year service period but contain no performance conditions. As a result, 100% of the shares granted generally vest.

See Note 1 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2009 for the related accounting policy.

The following table summarizes the nonvested restricted stock awards outstanding at September 30, 2010 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. 2008	42,144	$ 34.030	21.7%	2.90%
	Jan. 2009	37,748	$ 39.350	28.6%	1.20%
	Jan. 2010	52,940	$ 39.020	29.0%	1.65%
Directors -	Jan. 2008	7,704	$ 36.355	—	—
	Jan. 2009	8,690	$ 40.265	—	—
	Jan. 2010	16,700	$ 37.825	—	—

Expected volatility is based on the actual daily 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, which are reinvested 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 three-year 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 compensation cost for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Officers & Key Employees	$ 407	$ 335	$ 1,221	$ 1,005
Directors	97	82	319	247
Total Cost	504	417	1,540	1,252
Capitalized	(50)	(43)	(151)	(128)
Net Expense	$ 454	$ 374	$ 1,389	$ 1,124

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As of September 30, 2010, there was $2.9 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the restricted stock plans. That cost is expected to be recognized over a weighted average period of 1.9 years.

The following table summarizes information regarding restricted stock award activity during the nine months ended September 30, 2010 excluding accrued dividend equivalents:

	Officers & Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2010	80,281	16,394	$ 36.874
Granted	52,940	16,700	$ 38.733
Forfeited	(389)	—	$ 39.350
Nonvested Shares Outstanding, September 30, 2010	132,832	33,094	$ 37.649

During the nine months ended September 30, 2010 and 2009, SJI awarded 59,893 shares to its Officers and other key employees, which had vested at December 31, 2009, at a market value of $2.3 million, and 57,976 shares, which had vested at December 31, 2008, at a market value of $2.3 million, respectively. Also during the nine months ended September 30, 2010 and 2009, SJI awarded 16,700 and 9,559 shares to its Directors at a market value of $0.6 million and $0.4 million, respectively. 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 this plan. 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:

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 and nine months ended September 30, were (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gain (Loss) before Income Taxes:				
Sand Mining	$ (89)	$ (22)	$ (63)	$ (77)
Fuel Oil	(116)	(3)	(342)	(12)
Income Tax Benefits	72	9	142	31
Loss from Discontinued Operations — Net	$ (133)	$ (16)	$ (263)	$ (58)
Earnings Per Common Share from Discontinued Operations — Net:				

Basic and Diluted	$ (0.004)	$ (0.001)	$ (0.009)	$ (0.002)

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4. COMMON STOCK:

The following shares were issued and outstanding at September 30:

	2010
Beginning Balance, January 1	29,796,232
New Issues During Period:	
Stock-Based Compensation Plan	76,593
Ending Balance, September 30	29,872,825

The par value ($1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately $1.5 million was recorded in Premium on Common Stock.

EARNINGS PER COMMON SHARE — 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 127,064 for the three months ended September 30, 2010, and 105,056 and 103,196 shares for the nine months ended September 30, 2010 and 2009, respectively. For the three months ended September 30, 2009, incremental shares of 105,422 were not included in the denominator for the diluted EPS calculation because they would have an antidilutive effect on EPS. These shares relate to SJI's restricted stock as discussed in Note 2.

DIVIDENDS DECLARED – During the first six months of 2010 and 2009, SJI declared quarterly dividends to its common shareholders that were payable in April and July of each year. In June 2010, SJI also declared its normal quarterly dividend that is payable in October 2010. During 2009, SJI did not declare its October dividend until August. Consequently, Dividends Declared per Common Share on the condensed consolidated statements of income for the three months ended September 30, 2010 does not include the impact of the October dividend declaration.

DIVIDEND REINVESTMENT PLAN (DRP) — The Company offers a DRP which allows participating shareholders to purchase shares of SJI common stock by the automatic reinvestment of dividends or optional purchases. During 2010 and 2009, shares of SJI common stock offered by the DRP have been purchased in open market transactions.

5. FINANCIAL INSTRUMENTS:

RESTRICTED INVESTMENTS — In accordance with the terms of the Marina and certain SJG loan agreements, unused proceeds are required to be escrowed pending approved construction expenditures. As of September 30, 2010 and December 31, 2009, the escrowed proceeds, including interest earned, totaled $1.3 million and $1.4 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 September 30, 2010 and December 31, 2009, the balances in these accounts totaled $25.7 million and $3.8 million, respectively. The carrying amounts of the Restricted Investments approximate their fair values at September 30, 2010 and December 31, 2009.

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 $10.0 million and $10.8 million as of September 30, 2010 and December 31, 2009, respectively. 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 approximately $1.1 million and $1.2 million as of September 30, 2010 and December 31, 2009, respectively. 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 September 30, 2010 and December 31, 2009.

LONG-TERM DEBT – In March 2010, SJG issued $15.0 million aggregate principal amount of its Medium Term Notes in a private placement. These notes bear interest at 4.84%, are secured by a first mortgage lien on substantially all utility plant and are due in 2026. In June 2010, SJG issued an additional $45.0 million aggregate principal amount of its Medium Term notes in a private placement. These notes bear interest at 4.93%, are secured by a first mortgage lien on substantially all utility plant and are also due in 2026. The estimated fair values of SJI's long-term debt, including current maturities, as of September 30, 2010 and December 31, 2009, were $493.6 million and $394.5 million, respectively. The carrying amounts of SJI's long-term debt, including current maturities, as of September 30, 2010 and December 31, 2009 were $406.4 million and $347.9 million, respectively. We based the estimates on interest rates available to SJI at the end of each period for debt with similar terms and maturities. The carrying amounts of SJI's other financial instruments approximate their fair values at September 30, 2010 and December 31, 2009. No other long-term debt was issued by SJI or its subsidiaries in the first nine months of 2010 or 2009.

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As discussed in Note 11, SJI has provided standby letters of credit through its revolving credit facility and uncommitted bank lines to support variable-rate demand bonds of $61.4 million issued for Marina and $25.0 million issued for SJG. These letters of credit expire in August 2011 and consequently, these bonds are included in the current portion of long-term debt as of September 30, 2010. As of December 31, 2009, the SJG bonds were included in the current portion of long-term debt because the outstanding letter of credit at that time expired in August 2010. These letters of credit are expected to be renewed before expiration.

Certain long-term debt agreements contain one financial covenant which potentially restricts SJG's ability to pay cash dividends and other distributions on its common stock. As of September 30, 2010, SJG was in compliance with this covenant.

CONCENTRATION OF CREDIT RISK - As of September 30, 2010, approximately 49.2% of the current and noncurrent Derivatives – Energy Related Assets or $25.4 million are with a single retail counterparty. This counterparty has contracts with a large number of diverse customers which minimizes the concentration of this risk. A portion of these contracts may be assigned to SJI in the event of a default by the counterparty.

6. SEGMENTS OF BUSINESS:

SJI operates in several different reportable operating segments which reflect the financial information regularly evaluated by the chief operating decision maker. Gas Utility Operations (SJG) consists primarily of natural gas distribution to residential, commercial and industrial customers. Wholesale Gas Operations include SJRG's activities. 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 via the sale of appliance service programs as well as on a time and materials basis, and the installation of residential and small commercial HVAC systems. 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Operating Revenues:				
Gas Utility Operations	$ 57,140	$ 56,305	$ 315,200	$ 364,253
Wholesale Gas Operations	21,792	4,337	71,460	78,352
Retail Gas and Other Operations	24,160	20,482	85,775	81,641
Retail Electric Operations	45,762	35,725	136,580	70,187
On-Site Energy Production	11,003	9,528	29,533	28,228
Appliance Service Operations	5,148	4,002	14,440	13,233
Corporate & Services	5,130	4,375	16,041	14,536
Subtotal	170,135	134,754	669,029	650,430
Intersegment Sales	(9,468)	(7,667)	(27,431)	(26,684)
Total Operating Revenues	$ 160,667	$ 127,087	$ 641,598	$ 623,746
Operating Income:				
Gas Utility Operations	$ 1,335	$ 233	$ 58,350	$ 55,522

Wholesale Gas Operations	4,790	(898)	15,440	17,843
Retail Gas and Other Operations	241	(49)	887	(134)
Retail Electric Operations	(8,301)	(753)	(5,871)	(10,441)
On-Site Energy Production	1,962	1,140	4,517	5,082
Appliance Service Operations	371	142	373	757
Corporate and Services	139	270	889	1,001
Total Operating Income	$ 537	$ 85	$ 74,585	$ 69,630
Depreciation and Amortization:				
Gas Utility Operations	$ 10,137	$ 7,287	$ 29,362	$ 24,101
Wholesale Gas Operations	63	78	200	68
Retail Gas and Other Operations	8	6	26	16
Appliance Services Operations	86	76	262	219
On-Site Energy Production	981	933	2,937	2,747
Corporate and Services	150	135	488	378
Total Depreciation and Amortization	$ 11,425	$ 8,515	$ 33,275	$ 27,529

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Interest Charges:				
Gas Utility Operations	$ 4,775	$ 4,085	$ 12,953	$ 12,334
Wholesale Gas Operations	54	43	81	305
Retail Gas and Other Operations	66	7	123	7
On-Site Energy Production	1,292	1,133	3,694	1,479
Corporate and Services	372	136	689	575
Subtotal	6,559	5,404	17,540	14,700
Intersegment Borrowings	(283)	(106)	(634)	(397)
Total Interest Charges	$ 6,276	$ 5,298	$ 16,906	$ 14,303

Income Taxes:				
Gas Utility Operations	$ (2,132)	$ (1,665)	$ 18,132	$ 18,051