ARTESIAN RESOURCES CORP
Form 10-Q
November 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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 000-18516

ARTESIAN RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	51-0002090
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

664 Churchmans Road, Newark, Delaware 19702

Address of principal executive offices

(302) 453 – 6900

Registrant's telephone number, including area code

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 12(b)-2 of the Exchange Act.:

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

Yes No

As of November 2, 2015, 8,121,776 shares of Class A Non-Voting Common Stock and 881,452 shares of Class B Common Stock were outstanding.

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FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

ARTESIAN RESOURCES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited
(In thousands)

ASSETS	September 30, 2015	December 31, 2014
Utility plant, at original cost (less accumulated depreciation 2015- $104,318; 2014 - $97,932)	$ 403,101	$ 393,793
Current assets		
Cash and cash equivalents	525	243
Accounts receivable (less allowance for doubtful accounts 2015 - $346; 2014 - $250)	6,606	5,065
Income tax receivable	573	3,068
Unbilled operating revenues	1,669	3,314
Materials and supplies	1,708	1,890
Prepaid property taxes	2,192	1,401
Prepaid expenses and other	1,701	1,667
Total current assets	14,974	16,648
Other assets		
Non-utility property (less accumulated depreciation 2015 - $515; 2014 - $468)	3,977	4,030
Other deferred assets, net	5,201	5,181
Total other assets	9,178	9,211
Regulatory assets, net	2,609	2,561
Total Assets	$ 429,862	$ 422,213
LIABILITIES AND STOCKHOLDERS' EQUITY		
Stockholders' equity		
Common stock	$ 9,001	$ 8,912
Preferred stock	–	–
Additional paid-in capital	94,379	92,545
Retained earnings	25,809	24,148
Total stockholders' equity	129,189	125,605
Long-term debt, net of current portion	103,911	104,954
Total stockholders' equity and long term debt	233,100	230,559
Current liabilities		
Lines of credit	12,366	18,491
Overdraft payable	764	141
Current portion of long-term debt	1,285	1,245
Dividends payable	1,995	–
Accounts payable	3,182	3,783
Accrued expenses	1,695	1,513
Deferred income taxes	1,143	812
Accrued interest	1,211	1,428
Customer deposits	713	713
Other	2,975	2,066
Total current liabilities	27,329	30,192

Commitments and contingencies	–	–
Deferred credits and other liabilities		
Net advances for construction	9,359	10,228
Postretirement benefit obligation	268	268
Deferred investment tax credits	567	581
Utility plant retirement cost obligation	923	913
Deferred income taxes	60,754	57,043
Total deferred credits and other liabilities	71,871	69,033
Net contributions in aid of construction	97,562	92,429
Total Liabilities and Stockholders' equity	$429,862	$422,213

See notes to the condensed consolidated financial statements.

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ARTESIAN RESOURCES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited
(In thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating revenues				
Water sales	$18,831	$17,647	$52,343	$48,680
Other utility operating revenue	861	905	2,618	2,590
Non-utility operating revenue	1,084	1,043	3,313	3,115
	20,776	19,595	58,274	54,385
Operating expenses				
Utility operating expenses	9,036	8,262	26,198	25,848
Non-utility operating expenses	578	509	1,705	1,697
Depreciation and amortization	2,196	2,259	6,597	6,553
State and federal income taxes	2,497	2,220	6,452	4,933
Property and other taxes	1,075	1,014	3,270	3,228
	15,382	14,264	44,222	42,259
Operating income	5,394	5,331	14,052	12,126
Other income, net				
Allowance for funds used during construction (AFUDC)	86	159	153	305
Miscellaneous	(28)	(36)	521	547
Income before interest charges	5,452	5,454	14,726	12,978
Interest charges	1,753	2,137	5,256	5,616
Net income applicable to common stock	$3,699	$3,317	$9,470	$7,362
Income per common share:				
Basic	$0.41	$0.37	$1.06	$0.83
Diluted	$0.41	$0.37	$1.06	$0.83
Weighted average common shares outstanding:				
Basic	8,960	8,898	8,935	8,876
Diluted	9,000	8,930	8,972	8,919
Cash dividends paid per share of common stock	$0.2183	$0.2119	$0.6517	$0.6326

See notes to the condensed consolidated financial statements.

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ARTESIAN RESOURCES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(In thousands)

	For the Nine Months Ended September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$9,470	$7,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,597	6,553
Deferred income taxes, net	4,027	2,095
Stock compensation	46	101
AFUDC, equity portion	(101)	(196)
Changes in assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	(1,541)	71
Income tax receivable	2,496	399
Unbilled operating revenues	1,645	(412)
Materials and supplies	183	(275)
Prepaid property taxes	(792)	(615)
Prepaid expenses and other	(37)	(324)
Other deferred assets	(143)	(138)
Regulatory assets	(91)	(94)
Accounts payable	(601)	(230)
Accrued expenses	182	2,171
Accrued interest	(217)	531
Customer deposits and other, net	913	(33)
NET CASH PROVIDED BY OPERATING ACTIVITIES	22,036	16,966
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures (net of AFUDC, equity portion)	(15,875)	(19,257)
Proceeds from sale of assets	25	27
NET CASH USED IN INVESTING ACTIVITIES	(15,850)	(19,230)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) borrowings under lines of credit agreements	(6,125)	4,104
Increase (decrease) in overdraft payable	623	(60)
Net advances and contributions in aid of construction	4,448	2,361
Change in deferred debt issuance costs	91	90
Net proceeds from issuance of common stock	1,876	1,399
Dividends paid	(5,814)	(5,609)
Issuance of long-term debt	--	689
Principal repayments of long-term debt	(1,003)	(929)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(5,904)	2,045
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	282	(219)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	243	422
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$525	$203
Supplemental Disclosures of Cash Flow Information:		
Utility plant received as construction advances and contributions	$1,119	$463
Interest paid	$5,473	$5,085
Income taxes paid	$1,400	$1,615

See notes to the condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL

Artesian Resources Corporation, or Artesian Resources, includes income from the earnings of our eight wholly owned subsidiaries and the income derived from our Service Line Protection Plans described below. The terms "we", "our", "Artesian" and the "Company" as used herein refer to Artesian Resources and its subsidiaries.

DELAWARE REGULATED SUBSIDIARIES

Artesian Water Company, Inc., or Artesian Water, our principal subsidiary, is the oldest and largest public water utility in the State of Delaware and has been providing water service within the state since 1905. Artesian Water distributes and sells water to residential, commercial, industrial, governmental, municipal and utility customers throughout the State of Delaware. In addition, Artesian Water provides services to other water utilities, including operations and billing functions, and also has contract operation agreements with private and municipal water providers. We also provide water for public and private fire protection to customers in our service territories.

Artesian Wastewater Management, Inc., or Artesian Wastewater, is a regulated entity that owns wastewater collection and treatment infrastructure and provides wastewater services to customers in Delaware as a regulated public wastewater service company. As of September 30, 2015, Artesian Wastewater owned and operated four wastewater treatment facilities, which are capable of treating approximately 730,000 gallons per day and can be expanded to treat approximately 1.6 million gallons per day, or mgd.

MARYLAND REGULATED SUBSIDIARIES

Artesian Water Maryland, Inc., or Artesian Water Maryland, began operations in August 2007. Artesian Water Maryland distributes and sells water to residential, commercial, industrial and municipal customers in Cecil County, Maryland.

Artesian Wastewater Maryland, Inc., or Artesian Wastewater Maryland, is a regulated wastewater entity in the State of Maryland and was incorporated on June 3, 2008. Artesian Wastewater Maryland is able to provide public wastewater services to customers in the State of Maryland.

PENNSYLVANIA REGULATED SUBSIDIARY

Artesian Water Pennsylvania, Inc., or Artesian Water Pennsylvania, began operations upon receiving recognition as a regulated public water utility by the Pennsylvania Public Utility Commission, or PAPUC, in 2002. It provides water service to a residential community in Chester County. Artesian Water Pennsylvania filed an application with the PAPUC to increase our service area in Pennsylvania, which was approved and a related order was entered on February 4, 2005. This application involved specific developments, in which we expect modest future growth.

OTHER SUBSIDIARIES

Our three other subsidiaries, none of which are regulated, are Artesian Utility Development, Inc., or Artesian Utility, Artesian Development Corporation, or Artesian Development, and Artesian Consulting Engineers, Inc., or Artesian Consulting Engineers.

Artesian Utility was formed in 1996. It designs and builds water and wastewater infrastructure and provides contract water and wastewater services on the Delmarva Peninsula. Artesian Utility also evaluates land parcels, provides recommendations to developers on the size of water or wastewater facilities and the type of technology that should be used for treatment at such facilities, and operates water and wastewater facilities in Delaware for municipal and governmental organizations. Artesian Utility also contracts with developers for design and construction of wastewater facilities within the Delmarva Peninsula, using a number of different technologies for treatment of wastewater at each facility. Artesian Utility also operates the Water Service Line Protection Plan, or WSLP Plan, and the Sewer Service Line Protection Plan, or SSLP Plan.

We currently operate wastewater treatment facilities for the town of Middletown, in southern New Castle County, or Middletown, under a 20-year contract that expires in July 2022. The facilities include two wastewater treatment stations with capacities of up to approximately 2.5 mgd and 250,000 gallons per day, respectively. We also operate a wastewater disposal facility in Middletown in order to support the 2.5 mgd wastewater facility. One of the wastewater treatment facilities in Middletown now provides reclaimed wastewater for use in spray irrigation on public and agricultural lands in the area.

Artesian Utility has operated the WSLP Plan and the SSLP Plan since April 2012. Artesian Resources initiated the WSLP Plan in March 2005. The WSLP Plan covers all parts, material and labor required to repair or replace participating customers' leaking water service lines up to an annual limit. The WSLP Plan was expanded in the second quarter of 2008 to include maintenance or repair to customers' sewer lines. The SSLP Plan covers all parts, material and labor required to repair or replace participating customers' leaking or clogged sewer lines up to an annual limit. Also, in the second quarter of 2010, the WSLP Plan and SSLP Plan were extended to include non-utility customers of Artesian Resources. As of September 30, 2015, approximately 19,440, or 27.9%, of our eligible water customers signed up for the WSLP Plan, approximately 14,740, or 21.2%, of our eligible customers signed up for the SSLP Plan and approximately 1,210 non-customer participants signed up for either the WSLP Plan or SSLP Plan.

Artesian Development is a real estate holding company that owns properties, including land zoned for office buildings, a water treatment plant and wastewater facility, as well as property for current operations, including an office facility in Sussex County, Delaware. The facility consists of approximately 10,000 square feet of office space along with nearly 10,000 square feet of warehouse space. This facility allows all of our Sussex County, Delaware operations to be housed in one central location.

Artesian Consulting Engineers no longer offers development and architectural services to outside third parties. Artesian will continue to provide design and engineering contract services through our Artesian Utility subsidiary.

NOTE 2 – BASIS OF PRESENTATION AND ADJUSTEMENTS

Basis of Presentation

The unaudited condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required in the financial statements included in the Company's annual report on Form 10-K. Accordingly, these financial statements and related notes should be read in conjunction with the financial statements and related notes in the Company's annual report on Form 10-K for fiscal year 2014 as filed with the Securities and Exchange Commission on March 13, 2015.

The condensed consolidated financial statements include the accounts of Artesian Resources Corporation and its wholly owned subsidiaries, including its principal operating company, Artesian Water. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments (unless otherwise noted) necessary to present fairly the Company's balance sheet position as of September 30, 2015, the results of operations for the three and nine month periods ended September 30, 2015 and 2014 and the cash flows for the nine month periods ended September 30, 2015 and 2014.

The results of operations for the interim periods presented are not necessarily indicative of the results for the full year or for future periods.

Adjustments

Periodically the Company adjusts personnel costs charged to overhead for capital projects based upon a review of job responsibilities. Upon such a review, during the third quarter of 2014 an adjustment was made to capitalize payroll and benefits incurred from January 1, 2014 through June 30, 2014 for certain personnel. The adjustment resulted in a \$419,000 increase to Utility Plant and a decrease of \$393,000 and \$26,000 to Utility Operating Expenses and Property and Other Taxes, respectively, before the effect of income taxes. The adjustment related to first and second quarters of 2014 were made in the third quarter of 2014 since operating results effects to such prior periods were immaterial.

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NOTE 3 – STOCK COMPENSATION PLANS

On May 25, 2005, the Company's stockholders approved a new Equity Compensation Plan, referred to as the 2005 Equity Compensation Plan, or the Plan, which had authorized up to 500,000 shares of Class A Non-Voting Common Stock, or Class A Stock, for issuance. The Plan terminated on May 24, 2015. No additional grants will be issued from the plan. The Company accounts for stock options issued after January 1, 2006 under Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC Topic, 718. For the nine months ended September 30, 2015, compensation expense of approximately $46,000 was recorded for stock options granted in May 2014. There was no expense recorded for the three month period ended September 30, 2015. Approximately $33,000 and $101,000 in compensation expense was recorded during the three and nine months ended September 30, 2014 for stock options granted in May 2014 and May 2013. Costs were determined based on the fair value at the grant dates and those costs are being charged to income over the service period associated with the grants.

There was no stock compensation cost capitalized as part of an asset.

The fair value of each option grant is estimated using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions used for grants issued in 2014. All options were granted at market value with a 10-year option term with a vesting period of one year from the date of grant.

Expected Dividend Yield	3.88 %
Expected Stock Price Volatility	26.50 %
Weighted Average Risk-Free Interest Rate	2.24 %
Weighted Average Expected Life of Options (in years)	7.52

The expected dividend yield is the dividend yield at grant. The expected volatility is the standard deviation of the change in the natural logarithm of the stock price (expressed as an annual rate) for the expected term shown above. The expected term was based on historic exercise patterns for similar grants. The risk-free interest rate is calculated from the Treasury Constant Maturity rates as of the date of the grants.

The following summary reflects changes in the shares of Class A Stock underlying options for the nine months ended September 30, 2015:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs.)	Aggregate Intrinsic Value
Plan options				
Outstanding at January 1, 2015	376,250	$ 19.52		$ 1,157,000
Granted	–	–		–
Exercised	(63,500)	19.70		169,000
Expired	–	–		–
Outstanding at September 30, 2015	312,750	$ 19.48	4.45	$ 1,456,000
Options exercisable at September 30, 2015	312,750	$ 19.48	4.45	$ 1,456,000

The total intrinsic value of options exercised during the nine months ended September 30, 2015 was approximately $169,000.

The following summary reflects changes in the non-vested shares of Class A Stock underlying options for the nine months ended September 30, 2015:

Non-vested Shares	Option Shares	Weighted Average Grant – Date Fair Value Per Option
Non-vested at January 1, 2015	33,750	$ 3.95
Granted	–	–
Vested	(33,750)	3.95
Canceled	–	–
Non-vested at September 30, 2015	–	$ –

As of September 30, 2015, there was no unrecognized expense related to non-vested option shares granted under the Plan.

NOTE 4 - REGULATORY ASSETS

FASB ASC Topic 980 stipulates generally accepted accounting principles for companies whose rates are established or subject to approvals by a third-party regulatory agency. Certain expenses are recoverable through rates charged to our customers, without a return on investment, and are deferred and amortized during future periods using various methods as permitted by the Delaware Public Service Commission, or DEPSC, the Maryland Public Service Commission, or MDPSC, and the Pennsylvania Public Utility Commission, or PAPUC. Depreciation and salary study expenses are amortized on a straight-line basis over a period of five years. All other expenses related to Delaware rate proceedings and applications to increase rates are amortized on a straight line basis over a period of two years. Other expenses related to Maryland rate proceedings and applications to increase rates are amortized on a straight line basis over a period of five years or until the next rate increase application. The postretirement benefit obligation is the recognition of an offsetting regulatory asset as it relates to the accrual of the expected cost of providing postretirement health care and life insurance benefits to retired employees when they render the services necessary to earn the benefits. The deferred income taxes will be amortized over future years as the tax effects of temporary differences that previously flowed through to our customers are reversed. Goodwill was recognized as a result of the acquisition of Mountain Hill in August 2008 and is currently being amortized on a straight-line basis over a period of fifty years. Deferred acquisition and franchise costs are the result of due diligence costs related to the December 2011 purchase of water assets in Cecil County, Maryland and the November 2010 purchase of the Port Deposit, Maryland water assets. Amortization of these deferred acquisition costs began once the acquired assets were placed into service. The amortization of the Port Deposit acquisition began in November 2010 and the amortization of the Cecil County acquisition began in December 2011. These acquisition costs will be amortized over a period of twenty years, while the franchise costs will be amortized over a period of eighty years.

Regulatory assets, net of amortization, comprise:

	(in thousands)	
	September 30, 2015	December 31, 2014
Postretirement benefit obligation	$384	$ 384
Deferred income taxes	450	461
Goodwill	320	325
Deferred acquisition and franchise costs	729	756

Expense of rate and regulatory proceedings	726	635
	$2,609	$ 2,561

Artesian Water contributed $86,000 to its postretirement benefit plan in the first nine months of 2015. These contributions consist of insurance premium payments for medical, dental and life insurance benefits made on behalf of the Company's eligible retired employees.

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NOTE 5 - NET INCOME PER COMMON SHARE AND EQUITY PER COMMON SHARE

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and the potentially dilutive effect of employee stock options.

The following table summarizes the shares used in computing basic and diluted net income per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Weighted average common shares outstanding during the period for Basic computation	8,960	8,898	8,935	8,876
Dilutive effect of employee stock options	40	32	37	43
Weighted average common shares outstanding during the period for Diluted computation	9,000	8,930	8,972	8,919

For the three and nine months ended September 30, 2015, employee stock options to purchase 33,750 and 67,500 shares of common stock were excluded from the calculations of diluted net income per share, respectively, as the calculated proceeds from the options exercised were greater than the average market price of the Company's common stock during this period.

The Company has 15,000,000 authorized shares of Class A Stock and 1,040,000 authorized shares of Class B Stock. As of September 30, 2015, 8,119,781 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. As of September 30, 2014, 8,018,913 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. The par value for both classes is $1.00 per share. For the three months ended September 30, 2015 and September 30, 2014, the Company issued 72,200 and 8,722 shares of Class A Stock, respectively. For the nine months ended September 30, 2015 and September 30, 2014, the Company issued 89,104 and 70,344 shares of Class A stock.

Equity per common share was $14.45 and $14.14 at September 30, 2015 and December 31, 2014, respectively. These amounts were computed by dividing common stockholders' equity by the number of weighted average shares of common stock outstanding on September 30, 2015 and December 31, 2014, respectively.

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NOTE 6 - REGULATORY PROCEEDINGS

Our water and wastewater utilities generate operating revenue from customers based on rates that are established by state Public Service Commissions through a rate setting process that may include public hearings, evidentiary hearings and the submission of evidence and testimony in support of the requested level of rates by the Company.

We are subject to regulation by the following state regulatory commissions: The DEPSC regulates both Artesian Water and Artesian Wastewater. Artesian Water Maryland and Artesian Wastewater Maryland are subject to the regulatory jurisdiction of the MDPSC, and Artesian Water Pennsylvania is subject to the regulatory jurisdiction of the PAPUC.

Rate Proceedings

Our regulated utilities periodically seek rate increases to cover the cost of increased operating expenses, increased financing expenses due to additional investments in utility plant and other costs of doing business. In Delaware, utilities are permitted by law to place rates into effect, under bond, on a temporary basis pending completion of a rate increase proceeding. The first temporary increase may be up to the lesser of $2.5 million on an annual basis or 15% of gross water sales. Should the rate case not be completed within seven months, by law, the utility may put the entire requested rate relief, up to 15% of gross water sales, in effect under bond until a final resolution is ordered and placed into effect. If any such rates are found to be in excess of rates the DEPSC finds to be appropriate, the utility must refund the portion found to be in excess to customers with interest. The timing of our rate increase requests are therefore dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase. We can provide no assurances that rate increase requests will be approved by applicable regulatory agencies and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increase.

On April 11, 2014, Artesian Water filed a request with the DEPSC to implement new rates to meet a requested increase in revenue of 15.90%, or approximately $10.0 million, on an annualized basis. The actual effective requested increase was 12.58%, since, in accordance with applicable law, Artesian Water had been permitted to recover specific investments made in infrastructure through the assessment of a cumulative 3.32% Distribution System Improvement Charge, or DSIC. The DSIC rate of 3.32% was set to zero when the first step of temporary rates designed to generate an increase of 3.98%, or $2.5 million, on an annual basis, was placed into effect on June 10, 2014. A second step of temporary rates designed to generate an increase of 7.17%, or $4.5 million, on an annualized basis, was placed into effect on November 13, 2014. A portion of the second step of temporary increases was held in reserve until a final decision was determined by the DEPSC and was not reflected in income. On August 18, 2015, the DEPSC made a preliminary ruling in response to Artesian Water's April 11, 2014 request. The preliminary ruling recommended a permanent rate increase in revenue of approximately $6.0 million, or 9.50%, on an annualized basis, which is an incremental increase for customers of approximately 6.20%, above the DSIC rate previously in effect. On October 6, 2015, a final PSC Order was issued by the DEPSC concurring with the preliminary ruling issued on August 18, 2015. Since the permanent rate increase is less than amounts collected under previously approved temporary increases in rates, Artesian Water is required to refund a portion of the temporary rate increases to its customers. The refund, plus interest, at the average prime rate, for the overpayment from customers will be applied to current and future customer bills and has been recorded as a liability and is not reflected in net income as of September 30, 2015. Since the final rate award was at a level not less than the amount previously reported as income, there was no material impact upon previously reported water sales revenue. The new rates are designed to allow recovery of capital investments made by Artesian Water and to cover increased costs of operations, including water quality testing, chemicals and electricity for water treatment, taxes, labor and benefits. Prior to the 2014 filing, Artesian Water's last request to implement new rates was filed in April 2011.

On January 18, 2013, Artesian Wastewater filed an application with the DEPSC to revise its rates and charges for wastewater services concerning territories located in Kent and Sussex County, Delaware. Artesian Wastewater requested authorization to implement proposed rates for wastewater services to meet a requested increase in revenue of approximately $343,000, or 34.80%, on an annualized basis. The new rates are designed to support Artesian Wastewater's ongoing capital improvement program and to cover increased costs of operations. On August 6, 2013, Artesian Wastewater, the Staff of the Delaware Public Service Commission and the Division of the Public Advocate entered into an agreement to settle Artesian Wastewater's application for an increase in rates. On October 8, 2013, the DEPSC approved the settlement agreement authorizing a two-step increase in rates, with the first step effective upon approval of the settlement and the second step effective one year thereafter. The increase in rates was fully implemented as of December 31, 2014. Based on the number of households at the time of the settlement, the new rates amount to approximately $174,000 in additional annual revenue. The settlement also authorized a return on equity of 10%.

Other Proceedings

Delaware law permits water utilities to put into effect, on a semi-annual basis, increases related to specific types of distribution system improvements through a Distribution System Improvement Charge, or DSIC. This charge may be implemented by water utilities between general rate increase applications that normally recognize changes in a water utility's overall financial position. The DSIC approval process is less costly when compared to the approval process for general rate increase requests. The DSIC rate applied between base rate filings is capped at 7.5% of the amount billed to customers under otherwise applicable rates and charges, and the DSIC rate increase applied cannot exceed 5% within any 12-month period. On December 17, 2013, the DEPSC approved Artesian Water's application to collect a cumulative DSIC rate of 3.32%, effective January 1, 2014, subject to audit at a later date. This rate was based on approximately $12.9 million in eligible plant improvements since September 30, 2011. The DSIC rate of 3.32% was set to zero when the first step of temporary rates designed to generate an increase of 3.98%, or $2.5 million on an annual basis, was placed into effect on June 10, 2014. In November 2014, Artesian Water filed an application with the DEPSC for approval to collect a DSIC rate of 0.34% effective January 1, 2015. This rate was based on approximately $1.3 million in eligible plant improvements since September 30, 2014. On December 16, 2014, the DEPSC approved the DSIC effective January 1, 2015, subject to audit at a later date. In May 2015, Artesian Water filed an application with the DEPSC for approval to collect an additional DSIC rate of 0.81% effective July 1, 2015. This rate was based on approximately $3.3 million in eligible plant improvements. On June 16, 2015 the DEPSC approved the DSIC effective July 1, 2015, subject to audit at a later date. For the three and nine months ended September 30, 2015, we earned approximately $218,000 and $340,000 in DSIC revenue, respectively. For the three months ended September 30, 2014 we did not earn any DSIC revenue. For the nine months ended September 30, 2014 we earned approximately $789,000 in DSIC revenue.

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NOTE 7 – INCOME TAXES

Under FASB ASC Topic 740, an uncertain tax position represents our expected treatment of a tax position taken, or planned to be taken in the future, that has not been reflected in measuring income tax expense for financial reporting purposes. In 2014, the Company changed its tax method of accounting for qualifying utility system repairs effective with the tax year ended December 31, 2014 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes.

The Company establishes reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. The Company believes its tax positions comply with applicable law and that it has adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than the estimates recorded, the Company would then adjust its tax reserves or unrecognized tax benefits in the period that this information becomes known. The Company has elected to recognize accrued interest (net of related tax benefits) and penalties related to uncertain tax positions as a component of its income tax expense. The Company has accrued approximately $5,000 and $11,000 in penalties and interest for the three and nine months ended September 30, 2015, respectively. The Company remains subject to examination by federal and state authorities for tax years 2012 through 2014.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Current Assets and Liabilities

For those current assets and liabilities that are considered financial instruments, the carrying amounts approximate fair value because of the short maturity of those instruments.

Long-term Financial Liabilities

All of Artesian Resources' outstanding long-term debt as of September 30, 2015 and December 31, 2014 was fixed-rate. The fair value of the Company's long-term debt is determined by discounting their future cash flows using current market interest rates on similar instruments with comparable maturities consistent with FASB ASC 825. Under the fair value hierarchy, the fair value of the long-term debt in the table below is classified as Level 2 measurements. The fair values for long-term debt differ from the carrying values primarily due to interest rates that differ from the current market interest rates. The carrying amount and fair value of Artesian Resources' long-term debt are shown below:

In thousands

	September 30, 2015	December 31, 2014
Carrying amount	$105,196	$106,199
Estimated fair value	$121,276	$129,243

The fair value of Advances for Construction cannot be reasonably estimated due to the inability to accurately estimate the timing and amounts of future refunds expected to be paid over the life of the contracts. Refund payments are based on the water sales to new customers in the particular development constructed. The fair value of Advances for Construction would be less than the carrying amount because these financial instruments are non-interest bearing.

NOTE 9 – RELATED PARTY TRANSACTIONS

In September 2013, Artesian Water entered into a contract in the normal course of business with W.F. Construction, a related party, for work associated with structural improvements to a water treatment plant. The total contract was approximately $325,000. In May 2015, Artesian Water entered into an approximately $48,000 agreement in the normal course of business with W. F. Construction for structural improvements at a water treatment plant. The owner of W. F. Construction is the husband of Mrs. Jennifer Finch, Vice President and Assistant Treasurer of Artesian Resources. Approximately $65,000 and $276,000 were paid to W. F. Construction for the three and nine months ended September 30, 2014. No amounts were paid to W. F. Construction for the three months ended September 30, 2015. Approximately $48,000 was paid to W. F. Construction for the nine months ended September 30, 2015. As of September 30, 2015 and December 31, 2014, there were no accounts payable balances due to W. F. Construction. As set forth in the Charter of the Artesian Resources Audit Committee of the Board of Directors, the Audit Committee is responsible for reviewing and, if appropriate, approving all related party transactions between us and any officer, director, any person known to be the beneficial owner of more than 5% of any class of the Company's voting securities or any other related person that would potentially require disclosure. In its review and approval of the 2013 related party transaction with W. F. Construction, the Audit Committee considered the nature of the related person's interest in the transaction; the satisfactory performance of work contracted with the related party prior to our employment of Mrs. Finch; and the material terms of the transaction, including, without limitation, the amount and type of transaction, the importance of the transaction to the related person, the importance of the transaction to the Company and whether the transaction would impair the judgment of a director or officer to act in the best interest of the Company. The Audit Committee approves only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its stockholders. All services provided under the contract with W. F. Construction are in the ordinary course of business at fees and on terms and conditions that the Company believes are the same as those that would result from arm's-length negotiations between unrelated parties.

NOTE 10 – LEGAL PROCEEDINGS

On September 30, 2014, the United States District Court for the Eastern District of Pennsylvania, or the Court, issued an Order regarding the complaint filed on December 22, 2010 by Artesian Water, against Chester Water Authority, or CWA. The complaint claimed breach of contract, unjust enrichment, and requested declaratory judgment in relation to an interconnection agreement with CWA to supply bulk water supplies to Artesian Water.

According to the Order of the Court, Artesian Water was required to pay CWA amounts withheld related to CWA rate increases from 2008, 2009, and 2010 totaling approximately $3.1 million. The $3.1 million withheld from Artesian Water's previous payments to CWA were accrued by Artesian Water when originally invoiced by CWA and were paid by Artesian Water to CWA in October 2014. In addition, CWA requested approximately $379,000 in prejudgment and post judgment interest related to amounts withheld, which was accrued by Artesian Water as of December 31, 2014 and subsequently paid in January 2015. This amount was calculated at 6% per annum on outstanding amounts withheld.

Periodically, we are involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect our business, financial position or results of operations. However, we cannot assure that we will prevail in any litigation and, regardless of the outcome, may incur significant litigation expense and may have significant diversion of management attention.

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NOTE 11 - IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the FASB issued amended guidance to the imputation of interest and in August 2015, the FASB issued amended guidance on imputation of Interest: Presentation and Subsequent Measurement of Debt issuance Costs Associated with Line-of-Credit Arrangements. The April amendment requires that the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments. Given the absence of authoritative guidance in April 2015 amendment for debt issuance costs related to line-of-credit arrangements, the August guidance indicated SEC staff would not object to an entity deferring any presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The amendment will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods for those fiscal years for public companies. Early adoption is permitted for financial statements that have not been previously issued. The amendment should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in accounting principle. These disclosures include the nature of and reasons for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (i.e., debt issuance cost asset and debt liability). The Company expects to present debt issuance costs on the consolidated balance sheets as a regulatory asset under FASB ASC Topic 980 upon adoption of this guidance. Management does not expect a material impact on the Company's financial statements due to the adoption of this guidance.

In July 2015, the FASB issued amended guidance to inventory measurement. GAAP currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The amendments apply to all inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. This update more closely aligns the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards. For public entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. Management does not expect a material impact on the Company's financial statements due to the adoption of this guidance.

In August 2015, the FASB issued Accounting Standards update to Revenue from Contracts with Customers deferring the effective date. This update defers the effective date to apply the guidance to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Management does not expect a material impact on the Company's financial statements due to the adoption of this guidance, once applicable to the Company.

In September 2015, the FASB issued amended guidance on Business Combinations -Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments. Currently during the measurement period, the acquirer retrospectively adjusts the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. Those adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The acquirer also must revise comparative information for prior periods presented in financial statements as needed, including revising depreciation, amortization, or other income effects as a result of changes made to provisional amounts. The amendments require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The only disclosures required at transition should be the nature of and reason for the change in accounting principle. An entity should disclose that information in the first annual period of adoption and in the interim periods within the first annual period if there is a measurement-period adjustment during the first annual period in which the changes are effective. Management does not expect a material impact on the Company's financial statements due to the adoption of this guidance.

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ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q which express our "belief," "anticipation" or "expectation," as well as other statements which are not historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act and the Private Securities Litigation Reform Act of 1995. Statements regarding our goals, priorities, growth and expansion plans and expectation for our water and wastewater subsidiaries and non-regulated subsidiaries, customer base growth opportunities in Delaware and Cecil County, Maryland, our belief regarding our capacity to provide water services for the foreseeable future to our customers, our belief relating to our compliance and the cost to achieve compliance with relevant governmental regulations, our expectation of the timing of decisions by regulatory authorities, the impact of weather on our operations and the execution of our strategic initiatives, our expectation of the timing for construction on new projects, our belief regarding our reliance on outside engineering firms, our expectation relating to the adoption of recent accounting pronouncements, contract operations opportunities, legal proceedings, our properties, deferred tax assets, adequacy of our available sources of financing, the expected recovery of expenses related to our long-term debt, our expectation to be in compliance with financial covenants in our debt instruments, our ability to refinance our debt as it comes due, the timing and terms of renewals of our lines of credit, plans to increase our wastewater treatment operations, engineering services and other revenue streams less affected by weather, expected future contributions to our postretirement benefit plan, anticipated growth in our non-regulated division, the impact of recent acquisitions on our ability to expand and foster relationships, anticipated investments in certain of our facilities and systems and the sources of funding for such investments, sufficiency of internally generated funds and credit facilities to provide working capital and our liquidity needs are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties that could cause actual results to differ materially from those projected. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "projects", "forecasts", "may", "should", variations of such words and similar expressions are intended to identify such forward-looking statements. Certain factors as discussed under Item 1A -Risk Factors, in our Annual Report on Form10-K for the year ended December 31, 2014, such as changes in weather, changes in our contractual obligations, changes in government policies, the timing and results of our rate requests, changes in economic and market conditions generally, and other matters could cause results to differ materially from those in the forward-looking statements. While the Company may elect to update forward-looking statements, we specifically disclaim any obligation to do so and you should not rely on any forward-looking statement as representation of the Company's views as of any date subsequent to the date of the filing of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS FOR THE PERIOD ENDED SEPTEMBER 30, 2015

OVERVIEW

Our profitability is primarily attributable to the sale of water. Gross water sales comprise 89.8% of total operating revenues for the nine months ended September 30, 2015. Our profitability is also attributed to the various contract operations, water and sewer Service Line Protection Plans and other services we provide. Water sales are subject to seasonal fluctuations, particularly during summer when water demand may vary with rainfall and temperature. In the event temperatures during the typically warmer months are cooler than expected, or rainfall is greater than expected, the demand for water may decrease and our revenues may be adversely affected. We believe the effects of weather are short term and do not materially affect the execution of our strategic initiatives. Our contract operations and other services provide a revenue stream that is not affected by changes in weather patterns.

While water sales revenues are our primary source of revenues, we continue to seek growth opportunities to provide wastewater service in Delaware and the surrounding areas. We also continue to explore and develop relationships with developers and municipalities in order to increase revenues from contract water and wastewater operations, wastewater management services, design, construction and engineering services. We plan to continue developing and expanding our contract operations and other services in a manner that complements our growth in water service to new customers. Our anticipated growth in these areas is subject to changes in residential and commercial construction, which may be affected by interest rates, inflation and general housing and economic market conditions. We anticipate continued growth in our non-regulated division due to our water and sewer Service Line Protection Plans.

Water Division

Artesian Water, Artesian Water Maryland and Artesian Water Pennsylvania provide water service to residential, commercial, industrial, governmental, municipal and utility customers. Increases in the number of customers contribute to increases, or help to offset any intermittent decreases, in our operating revenue. The Town of Middletown, which is one of our municipal customers and is located in southern New Castle County, Delaware, has more than doubled in population over the last 10 years, and population growth in this area is expected to continue for some time as a result of ongoing and future residential construction. As population growth continues in Middletown and other areas in Delaware, we believe that the demand for water will increase, thereby contributing to an increase in our operating revenues. As of September 30, 2015 we had approximately 81,200 metered water customers in Delaware, an increase of approximately 700 compared to September 30, 2014. The number of metered water customers in Maryland totaled 2,270 as of September 30, 2015, an increase of approximately 20 compared to September 30, 2014. The number of metered water customers in Pennsylvania remained consistent with 2014. For the nine months ended September 30, 2015, approximately 5.9 billion gallons of water were distributed in our Delaware systems and approximately 108.2 million gallons of water were distributed in our Maryland systems.

Wastewater Division

Artesian Wastewater owns wastewater infrastructure and began providing wastewater services in Delaware in July 2005. Artesian Wastewater Maryland, which was incorporated on June 3, 2008, is able to provide regulated wastewater services in Maryland. Our wastewater customers are billed a flat monthly fee, which contributes to providing a revenue stream unaffected by weather.

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Non-Regulated Division

Artesian Utility provides contract water and wastewater operation services to private, municipal and governmental institutions. Artesian Utility currently operates wastewater treatment facilities for the town of Middletown, in southern New Castle County, or Middletown, under a 20-year contract that expires in July 2022. The facilities include two wastewater treatment stations with capacities of up to approximately 2.5 million gallons per day and 250,000 gallons per day, respectively. We also operate a wastewater disposal facility in Middletown in order to support the 2.5 million gallons per day wastewater facility.

Artesian Utility operates the Water Service Line Protection Plan, or WSLP Plan, and the Sewer Service Line Protection Plan, or SSLP Plan. The WSLP Plan covers all parts, material and labor required to repair or replace participating customers' leaking water service lines up to an annual limit. The WSLP Plan was expanded in the second quarter of 2008 to include maintenance or repair to customers' sewer lines. The SSLP Plan covers all parts, material and labor required to repair or replace participating customers' leaking or clogged sewer lines up to an annual limit. Also, in the second quarter of 2010, the WSLP Plan and SSLP Plan were extended to include non-utility customers of Artesian Resources. As of September 30, 2015, approximately 19,440, or 27.9%, of our eligible water customers signed up for the WSLP Plan, approximately 14,740, or 21.2%, of our eligible customers signed up for the SSLP Plan and approximately 1,210 non-customer participants signed up for either the WSLP Plan or SSLP Plan.

Artesian Development is a real estate holding company that owns properties, including land zoned for office buildings, a water treatment plant and wastewater facility, as well as property for current operations, including an office facility in Sussex County, Delaware. The facility consists of approximately 10,000 square feet of office space along with nearly 10,000 square feet of warehouse space. This facility allows all of our Sussex County, Delaware operations to be housed in one central location.

Artesian Consulting Engineers no longer offers development and architectural services to outside third parties. Artesian will continue to provide design and engineering contract services through our Artesian Utility subsidiary.

Strategic Direction

Our strategy is to significantly increase customer growth, revenues, earnings and dividends by expanding our water, wastewater and Service Line Protection Plan services across the Delmarva Peninsula. We remain focused on providing superior service to our customers and continuously seeking ways to improve our efficiency and performance. By providing water and wastewater services, we believe we are positioned as the primary resource for developers and communities throughout the Delmarva Peninsula seeking to fill both needs simultaneously. We have a proven ability to acquire and integrate high growth, reputable entities, through which we have captured additional service territories that will serve as a base for future revenue. We believe this experience presents a strong platform for further expansion and that our success to date also produces positive relationships and credibility with regulators, municipalities, developers and customers in both existing and prospective service areas.

In our regulated water division, our strategy is to focus on a wide spectrum of activities, which include identifying new and dependable sources of supply, developing the wells, treatment plants and delivery systems to supply water to customers and educating customers on the wise use of water. Our strategy includes focused efforts to expand in new regions added to our Delaware service territory over the last 10 years. In addition, we believe growth will occur in the Maryland counties on the Delmarva Peninsula. We plan to expand our regulated water service area in the Cecil County designated growth corridor and to expand our business through the design, construction, operation, management and acquisition of additional water systems. The expansion of our exclusive franchise areas elsewhere in Maryland and the award of contracts will similarly enhance our operations within the state.

We believe that Delaware's generally lower cost of living in the region, availability of development sites in relatively close proximity to the Atlantic Ocean in Sussex County, and attractive financing rates for construction and mortgages have resulted, and will continue to result, in increases to our customer base. Delaware's lower property and income tax rate make it an attractive region for new home development and retirement communities. Substantial portions of Delaware are currently not served by a public water system, which could also assist in an increase to our customer base as systems are added.

In our regulated wastewater division, we foresee significant growth opportunities and will continue to seek strategic partnerships and relationships with developers and municipalities to complement existing agreements for the provision of wastewater service on the Delmarva Peninsula. Artesian Wastewater plans to utilize our larger regional wastewater facilities to expand service areas to new customers while transitioning our smaller treatment facilities into regional pump stations in order to gain additional efficiencies in the treatment and disposal of wastewater. We feel this will reduce operational costs at the smaller treatment facilities in the future since they will be converted from treatment and disposal plants to pump stations to assist with transitioning the flow of wastewater from one regional facility to another.

The general need for increased capital investment in our water and wastewater systems is due to a combination of population growth, more protective water quality standards and aging infrastructure. Our capital investment plan for the next five years includes projects for water treatment plant improvements and additions in both Delaware and Maryland and wastewater treatment plant improvements and additions in Delaware. Capital improvements are planned and budgeted to meet anticipated changes in regulations and needs for increased capacity related to projected growth. The Delaware Public Service Commission and Maryland Public Service Commission have generally recognized the operating and capital costs associated with these improvements in setting water and wastewater rates for current customers and capacity charges for new customers.

In our non-regulated division, we continue pursuing opportunities to expand our contract operations. Through Artesian Utility, we will seek to expand our contract design, engineering and construction services of water and wastewater facilities for developers, municipalities and other utilities. Artesian Development owns two nine-acre parcels of land, located in Sussex County, Delaware, which will allow for construction of a water treatment facility and wastewater treatment facility.

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Regulatory Matters and Inflation

Our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates charged for service, determine franchise areas and conditions of service, approve acquisitions, authorize the issuance of securities and oversee other matters. The profitability of our utility operations is influenced, to a great extent, by the timeliness and adequacy of rate allowances we are granted by the respective regulatory commissions or authorities in the states in which we operate.

On April 11, 2014, Artesian Water filed a request with the DEPSC to implement new rates to meet a requested increase in revenue of 15.90%, or approximately $10.0 million, on an annualized basis. The actual effective requested increase was 12.58%, since, in accordance with applicable law, Artesian Water had been permitted to recover specific investments made in infrastructure through the assessment of a cumulative 3.32% Distribution System Improvement Charge, or DSIC. The DSIC rate of 3.32% was set to zero when the first step of temporary rates designed to generate an increase of 3.98%, or $2.5 million, on an annual basis, was placed into effect on June 10, 2014. A second step of temporary rates designed to generate an increase of 7.17%, or $4.5 million, on an annualized basis, was placed into effect on November 13, 2014. A portion of the second step of temporary increases was held in reserve until a final decision was determined by the DEPSC and was not reflected in income. On August 18, 2015, the DEPSC made a preliminary ruling in response to Artesian Water's April 11, 2014 request. The preliminary ruling recommended a permanent rate increase in revenue of approximately $6.0 million, or 9.5%, on an annualized basis, which is an incremental increase for customers of approximately 6.2%, above the DSIC rate previously in effect. On October 6, 2015, a final PSC Order was issued by the DEPSC concurring with the preliminary ruling issued on August 18, 2015. Since the permanent rate increase is less than amounts collected under previously approved temporary increases in rates, Artesian Water is required to refund a portion of the temporary rate increases to its customers. The refund, plus interest, at the average prime rate, for the overpayment from customers will be applied to current and future customer bills and has been recorded as a liability and is not reflected in net income as of September 30, 2015. Since the final rate award was at a level not less than the amount previously reported as income, there was no material impact upon previously reported water sales revenue. The new rates are designed to allow recovery of capital investments made by Artesian Water and to cover increased costs of operations, including water quality testing, chemicals and electricity for water treatment, taxes, labor and benefits. Prior to the 2014 filing, Artesian Water's last request to implement new rates was filed in April 2011.

On January 18, 2013, Artesian Wastewater filed an application with the DEPSC to revise its rates and charges for wastewater services concerning territories located in Sussex County, Delaware. Artesian Wastewater requested authorization to implement proposed rates for wastewater services to meet a requested increase in revenue of approximately $343,000, or 34.80%, on an annualized basis. The new rates are designed to support Artesian Wastewater's ongoing capital improvement program and to cover increased costs of operations. On August 6, 2013, Artesian Wastewater, the Staff of the Delaware Public Service Commission and the Division of the Public Advocate entered into an agreement to settle Artesian Wastewater's application for an increase in rates. On October 8, 2013, the DEPSC approved the settlement agreement authorizing a two-step increase in rates, with the first step effective upon approval of the settlement and the second step effective one year thereafter. The increase in rates was fully implemented as of December 31, 2014. Based on the number of households at the time of the settlement, the new rates amount to approximately $174,000 in additional annual revenue. The settlement also authorized a return on equity of 10%.

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Results of Operations – Analysis of the Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014.

Operating Revenues

Revenues totaled $20.8 million for the three months ended September 30, 2015, $1.2 million, or 6.0%, above revenues for the three months ended September 30, 2014 of $19.6 million. Water sales revenues increased $1.2 million, or 6.7%, for the three months ended September 30, 2015 from the corresponding period in 2014, primarily as a result of the second temporary rate increase placed into effect on November 13, 2014. A portion of the second step of temporary increases was held in reserve until a final decision was determined by the DEPSC and was not reflected in income. Pursuant to the final rate order issued by the DEPSC on October 6, 2015, since the permanent rate increase is less than the amounts collected under previously approved temporary increases in rates, Artesian Water is required to refund a portion of the temporary rate increases to its customers. Those refunds are recorded as a liability and are not reflected in net income as of September 30, 2015. Since the final rate award was at a level not less than the amount previously reported as income, there was no material impact upon previously reported water sales revenue. We realized 90.6% of our total operating revenue for the three months ended September 30, 2015 from the sale of water as compared to 90.1% for the three months ended September 30, 2014.

Operating Expenses

Operating expenses, excluding depreciation and income taxes, increased $0.9 million, or 9.2%, for the three months ended September 30, 2015, compared to the same period in 2014.

Payroll and employee benefit costs increased $0.9 million, or 18.9%, due to bonuses issued to employees in the third quarter of 2015 while similar bonuses were issued in the second quarter of 2014, reclassification of certain personnel costs to overhead for capital projects based upon job responsibilities, and increases in wages and benefits.

Repairs and Maintenance costs decreased $0.1 million, or 16.9%, primarily due to decreased gas prices, and decreased equipment maintenance costs.

Purchased power expense increased $0.1 million, or 25.3%, primarily due to the result of increased water pumpage and installation of a new ultra violet oxidation treatment facility.

The ratio of operating expense, excluding depreciation and income taxes, to total revenue was 51.4% for the three months ended September 30, 2015, compared to 49.9% for the three months ended September 30, 2014.

Federal and state income tax expense increased $0.3 million, primarily due to higher pre-tax income for the three months ended September 30, 2015, compared to the three months ended September 30, 2014.

Interest Charges

Interest expense decreased $0.4 million for the three months ended September 30, 2015 compared to the same period a year ago primarily due to the accrual of interest expense in the third quarter of 2014 related to the litigation against Chester Water Authority (CWA) in regard to the proper determination of the rate CWA charged for water purchased under contract.

Net Income

Our net income applicable to common stock increased $0.4 million for the three months ended September 30, 2015, compared to the same period a year ago. This increase in net income was primarily due to a decrease in interest charges and higher operating income margins in our water utility business attributable to the second step of temporary rate increases placed into effect on November 13, 2014.

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Results of Operations – Analysis of the Nine Months Ended September 30, 2015 Compared to the Nine Months Ended September 30, 2014.

Operating Revenues

Revenues totaled $58.3 million for the nine months ended September 30, 2015, $3.9 million, or 7.2%, above revenues for the nine months ended September 30, 2014 of $54.4 million. Water sales revenues increased $3.7 million, or 7.5%, for the nine months ended September 30, 2015 from the corresponding period in 2014, primarily as a result of temporary rate increases that were placed into effect on June 10, 2014 and November 13, 2014. A portion of the second step of temporary increases was held in reserve until a final decision was determined by the DEPSC and was not reflected in income. Pursuant to the final rate order issued by the DEPSC on October 6, 2015, since the permanent rate increase is less than the amounts collected under previously approved temporary increases in rates, Artesian Water is required to refund a portion of the temporary rate increases to its customers. Those refunds are recorded as a liability and are not reflected in net income as of September 30, 2015. Since the final rate award was at a level not less than the amount previously reported as income, there was no material impact upon previously reported water sales revenue. This increase in water sales revenue is partially offset by a decrease in the Distribution System Improvement Charge, or DSIC, revenue of approximately $0.5 million, as the DSIC was reset to zero upon the implementation of the first step of temporary rate increases on June 10, 2014. We realized 89.8% of our total operating revenue for the nine months ended September 30, 2015 from the sale of water as compared to 89.5% for the nine months ended September 30, 2014.

Non-utility operating revenue increased approximately $0.2 million, or 6.4%, for the nine months ended September 30, 2015 compared to the same period in 2014. The increase is primarily due to an increase in water and wastewater Service Line Protection Plan, or SLP Plans, revenue. The SLP Plans provide coverage for all material and labor required to repair or replace participants' leaking water service or clogged sewer lines up to an annual limit. This increase is partially offset by a decrease in contract revenue, primarily due to a decrease in wastewater contract services.

Operating Expenses

Operating expenses, excluding depreciation and income taxes, increased $0.4 million, or 1.3%, for the nine months ended September 30, 2015, compared to the same period in 2014.

Administration costs increased $0.4 million, or 11.1%, primarily due to rate case expenses being amortized when the temporary rates were first put into effect.

Purchased power expense increased $0.3 million, or 11.9%, primarily due to the result of increased water pumpage and installation of a new ultra violet oxidation treatment facility.

Repair and maintenance costs decreased $0.3 million, or 11.3%, primarily due to decreased fuel costs and decreased equipment maintenance costs.

The ratio of operating expense, excluding depreciation and income taxes, to total revenue was 53.5% for the nine months ended September 30, 2015, compared to 56.6% for the nine months ended September 30, 2014.

Federal and state income tax expense increased $1.5 million, primarily due to higher pre-tax income for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014.

Interest Charges

Interest expense decreased $0.4 million for the nine months ended September 30, 2015 compared to the same period a year ago primarily due to the accrual of interest expense in the third quarter of 2014 related to the litigation against Chester Water Authority (CWA) in regard to the proper determination of the rate CWA charged for water purchased under contract.

Net Income

Our net income applicable to common stock increased $2.1 million for the nine months ended September 30, 2015, compared to the same period a year ago. This increase in net income was primarily due to higher operating income margins in our water utility business, as a result of temporary rate increases placed in effect on June 10, 2014 and November 13, 2014 and a decrease in interest expense.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary sources of liquidity for the nine months ended September 30, 2015 were $22.0 million provided by cash flow from operating activities and $4.4 million in net contributions and advances from developers. Cash flow from operating activities is primarily provided by our utility operations, and is impacted by the timeliness and adequacy of rate increases and changes in water consumption as a result of year-to-year variations in weather conditions, particularly during the summer. A significant part of our ability to maintain and meet our financial objectives is to ensure that our investments in utility plant and equipment are recovered in the rates charged to customers. As such, from time to time, we file rate increase requests to recover increases in operating expenses and investments in utility plant and equipment.

Investment in Plant and Systems

The primary focus of Artesian Water's investment is to continue to provide high quality reliable service to our growing service territory. We invested $15.9 million in capital expenditures during the first nine months of 2015 compared to $19.3 million invested during the same period in 2014. During the first nine months of 2015, we invested approximately $5.3 million for our rehabilitation program for transmission and distribution facilities by replacing aging or deteriorating mains and for new transmission and distribution facilities. We invested $3.6 million to enhance or improve existing treatment facilities and for the rehabilitation of pumping equipment to better serve our customers. We invested $1.6 million for equipment purchases, computer hardware and software upgrades and transportation and equipment purchases. Developers financed $2.8 million for the installation of water mains and hydrants for the first nine months of 2015 compared to $2.0 million for the first nine months of 2014. We invested $1.4 million to upgrade and automate our meter reading equipment. We invested approximately $0.5 million in mandatory utility plant expenditures due to governmental highway projects which require the relocation of water service mains in addition to facility improvements and upgrades. An additional $0.7 million was invested in wastewater projects in Delaware.

We depend on the availability of capital for expansion, construction and maintenance. We have several sources of liquidity to finance our investment in utility plant and other fixed assets. We estimate that future investments will be financed by our operations and external sources, including a combination of capital investment as well as short-term borrowings. We expect to fund our activities for the next twelve months using our available cash balances, bank credit lines, projected cash generated from operations and financing in the capital markets as necessary. We believe that internally generated funds along with existing credit facilities will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements. Our cash flows from operations are primarily derived from water sales revenues and may be materially affected by changes in water sales due to weather and the timing and extent of increases in rates approved by state Public Service Commissions.

Lines of Credit

At September 30, 2015, Artesian Resources had a $40 million line of credit with Citizens Bank, or Citizens, which is available to all subsidiaries of Artesian Resources. As of September 30, 2015, there was $35.6 million of available funds under this line of credit. The interest rate for borrowings under this line is the London Interbank Offered Rate, or LIBOR, plus 1.00%. This is a demand line of credit and therefore the financial institution may demand payment for any outstanding amounts at any time. The term of this line of credit expires on the earlier of May 27, 2016 or any date on which Citizens demands payment.

At September 30, 2015, Artesian Water had a $20 million line of credit with CoBank, ACB, or CoBank, that allows for the financing of operations for Artesian Water, with up to $10 million of this line available for the operations of Artesian Water Maryland. As of September 30, 2015, there was $12 million of available funds under this line of credit. The interest rate for borrowings under this line is LIBOR plus 1.50%. CoBank may make an annual patronage refund, which has been equal to 1.00% of the average line of credit and loan volume outstanding by Artesian. The patronage refunds earned by Artesian for the nine months ended September 30, 2015 and September 30, 2014 were $0.7 million and $0.7 million, respectively. The term of this line of credit expires on January 12, 2016.

Line of Credit Commitments	Commitment Due by Period			
In thousands	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years
Lines of Credit	$12,366	$-----	$-----	$-----

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Long-Term Debt

Artesian Water's trust indentures, which set certain criteria for the issuance of new long-term debt, limit long-term debt, including the short-term portion thereof, to 66 % of total capitalization. Our debt to total capitalization, including the short-term portion thereof, was 44.9% at September 30, 2015. In addition, our revolving line of credit with CoBank contains customary affirmative and negative covenants that are binding on us (which are in some cases subject to certain exceptions), including, but not limited to, restrictions on our ability to make certain loans and investments, guaranty certain obligations, enter into, or undertake, certain mergers, consolidations or acquisitions, transfer certain assets, change our business or incur additional indebtedness. In addition, this line of credit requires us to abide by certain financial covenants and ratios. As of September 30, 2015, we were in compliance with these covenants.

We expect to fund our activities for the next 12 months using our available cash balances and bank credit lines, plus projected cash generated from operations.

Contractual Obligations	Payments Due by Period				
In thousands	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
First mortgage bonds (principal and interest)	$6,903	$13,262	$34,908	$104,207	$159,280
State revolving fund loans (principal and interest)	1,002	2,005	2,005	6,056	11,068
Operating leases	74	108	114	1,503	1,799
Unconditional purchase obligations	3,824	7,627	7,637	4,774	23,862
Tank painting contractual obligation	306	76	--	--	382
Total contractual cash obligations	$12,109	$23,078	$44,664	$116,540	$196,391

Long-term debt obligations reflect the maturities of certain series of our first mortgage bonds, which we intend to refinance when due. The state revolving fund loan obligation has an amortizing mortgage payment payable over a 20-year period, and will be refinanced as future securities are issued. Both the long-term debt and the state revolving fund loan have certain financial covenant provisions, the violation of which could result in default and require the obligation to be immediately repaid, including all interest. We have not experienced conditions that would result in our default under these agreements, and we do not anticipate any such occurrence. Payments for unconditional purchase obligations reflect minimum water purchase obligations based on rates that are subject to change under our interconnection agreement with the Chester Water Authority.

Artesian Water entered into a letter agreement with Co Bank in September 2015 confirming the forward setting of a fixed rate of a First Mortgage Bond, Series S. The Bond carries an annual interest rate of 6.73% through March 1, 2016. The terms of the Bond Purchase Agreement state that Artesian Water may request that after March 1, 2016 the annual interest rate be fixed by CoBank in its sole and absolute discretion for a period through the Maturity Date or for such shorter periods as mutually agreed by the Company and CoBank. The Letter Agreement sets the fixed annual interest rate, to be effective March 1, 2016 through the Maturity Date, at an annual interest rate of 4.45%. The Bond is subject to redemption in a principal amount equal to $150,000 plus interest per calendar quarter, payable on the first business day of March, June, September and December each year. The principal amount of the Bond at March 1, 2016 will be $10,650,000.

In order to control purchased power costs, in October 2015 Artesian Water entered into an electric supply contract at a fixed rate that is 11.0% lower than its current contract that expires in May 2016 and is less than the rate charged by the local electric supplier at the time of entering into the contract. The current contract term has been in effect since May 2013. The new fixed price contract will be effective from May 2016 through May 2019.

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Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, including any arrangements with any structured finance, special purpose or variable interest entities.

Critical Accounting Assumptions, Estimates and Policies; Recent Accounting Standards

This discussion and analysis of our financial condition and results of operations is based on the accounting policies used and disclosed in our 2014 consolidated financial statements and accompanying notes that were prepared in accordance with accounting principles generally accepted in the United States of America and included as part of our annual report on Form 10-K for the year ended December 31, 2014. The preparation of those financial statements required management to make assumptions and estimates that affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements as well as the reported amounts of revenues and expenses during the reporting periods. Actual amounts or results could differ from those based on such assumptions and estimates.

Our critical accounting policies are described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the year ended December 31, 2014. There have been no changes in our critical accounting policies. Our significant accounting policies are described in our notes to the 2014 consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2014.

Information concerning our implementation and the impact of recent accounting standards issued by the Financial Accounting Standards Board is included in the notes to our 2014 consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2014 and also in the notes to our unaudited condensed consolidated financial statements contained in this quarterly report on Form 10-Q. We did not adopt any accounting policy in the first nine months of 2015 that had a material impact on our financial condition, liquidity or results of operations.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's exposure to interest rate risk related to existing fixed rate, long-term debt is due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2043, which exposes the Company to interest rate risk as interest rates may drop below the existing fixed rate of the long-term debt prior to such debt's maturity. In addition, the Company has interest rate exposure on $60 million of variable rate lines of credit with two banks, under which the interim bank loans payable at September 30, 2015 were approximately $12.4 million. An increase in interest rates will result in an increase in the cost of borrowing on this variable rate line. We are also exposed to market risk associated with changes in commodity prices. Our risks associated with price increases in chemicals, electricity and other commodities are mitigated by our ability to recover our costs through rate increases to our customers. We have also sought to mitigate future significant electric price increases by signing a two year supply contract, at a fixed price.

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ITEM 4 – CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In addition, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to achieve the foregoing objectives. A control system cannot provide absolute assurance, however, that the objectives of the control system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

On September 30, 2014, the United States District Court for the Eastern District of Pennsylvania, or the Court, issued an Order regarding the complaint filed on December 22, 2010 by Artesian Water, against Chester Water Authority, or CWA. The complaint claimed breach of contract, unjust enrichment, and requested declaratory judgment in relation to an interconnection agreement with CWA to supply bulk water supplies to Artesian Water.

According to the Order of the Court, Artesian Water was required to pay CWA amounts withheld related to CWA rate increases from 2008, 2009, and 2010 totaling approximately $3.1 million. The $3.1 million withheld from Artesian Water's previous payments to CWA were accrued by Artesian Water when originally invoiced by CWA and were paid by Artesian Water to CWA in October 2014. In addition, CWA requested approximately $379,000 in prejudgment and post judgment interest related to amounts withheld, which was accrued by Artesian Water as of December 31, 2014 and subsequently paid in January 2015. This amount was calculated at 6% per annum on outstanding amounts withheld.

Periodically, we are involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect our business, financial position or results of operations. However, we cannot assure that we will prevail in any litigation and, regardless of the outcome, may incur significant litigation expense and may have significant diversion of management attention.

ITEM 1A – RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in such Annual Report on Form 10-K.

ITEM 4 – MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is not applicable to our Company.

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ITEM 6 - EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer of the Registrant required by Rule 13a – 14 (a) under the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer of the Registrant required by Rule 13a – 14 (a) under the Securities Exchange Act of 1934, as amended.*
32	Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350).*
101	The following financial statements from Artesian Resources Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 formatted in eXtensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to the Condensed Consolidated Financial Statements.

* Filed herewith

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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.

ARTESIAN RESOURCES CORPORATION

Date: November 6, 2015	By:	/s/ DIAN C. TAYLOR Dian C. Taylor (Principal Executive Officer)
Date: November 6, 2015	By:	/s/ DAVID B. SPACHT David B. Spacht (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

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