SOUTH JERSEY INDUSTRIES INC
Form 10-Q
November 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2007**

OR

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

For the transition period from ________________ to __________________

Commission File Number **1-6364**

SOUTH JERSEY INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

New Jersey	**22-1901645**
(State of incorporation)	(IRS employer identification no.)

1 South Jersey Plaza, Folsom, NJ 08037
(Address of principal executive offices, including zip code)

(609) 561-9000
(Registrant's telephone number, including area code)

Common Stock	
($1.25 par value per share)	**New York Stock Exchange**
(Title of each class)	(Name of exchange on which registered)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

As of November 1, 2007, there were 29,572,416 shares of the registrant's common stock outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements - See Pages 3 through 21

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30, 2007	2006
Operating Revenues:		
Utility	$ 83,385	$ 73,541
Nonutility	72,843	81,164
Total Operating Revenues	156,228	154,705
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	61,188	50,840
- Nonutility	47,976	46,110
Operations	16,084	15,596
Maintenance	1,544	1,454
Depreciation	6,982	6,646
Energy and Other Taxes	1,587	1,783
Total Operating Expenses	135,361	122,429
Operating Income	20,867	32,276
Other Income and Expense	303	639
Interest Charges	(6,966)	(7,462)
Income Before Income Taxes	14,204	25,453
Income Taxes	(5,818)	(10,584)
Equity in Affiliated Companies	178	196
Income from Continuing Operations	8,564	15,065
Loss from Discontinued Operations - (Net of tax benefit)	(33)	(149)
Net Income	$ 8,531	$ 14,916
Basic Earnings Per Common Share:		
Continuing Operations	$ 0.290	$ 0.515
Discontinued Operations	(0.001)	(0.005)
Basic Earnings Per Common Share	$ 0.289	$ 0.510

Average Shares of Common Stock Outstanding - Basic		29,518		29,225
Diluted Earnings Per Common Share:				
Continuing Operations	$	0.289	$	0.514
Discontinued Operations		(0.001)		(0.005)
Diluted Earnings Per Common Share	$	0.288	$	0.509
Average Shares of Common Stock Outstanding - Diluted		29,627		29,320
Dividends Declared per Common Share	$	0.245	$	0.225

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

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30, 2007	2006
Operating Revenues:		
Utility	$ 441,073	$ 438,168
Nonutility	255,241	242,917
Total Operating Revenues	696,314	681,085
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	314,408	318,041
- Nonutility	198,830	177,195
Operations	51,619	48,005
Maintenance	4,446	4,224
Depreciation	20,884	19,384
Energy and Other Taxes	8,891	8,405
Total Operating Expenses	599,078	575,254
Operating Income	97,236	105,831
Other Income and Expense	1,184	1,434
Interest Charges	(20,123)	(20,045)
Income Before Income Taxes	78,297	87,220
Income Taxes	(32,350)	(36,216)
Equity in Affiliated Companies	600	906
Income from Continuing Operations	46,547	51,910
Loss from Discontinued Operations - (Net of tax benefit)	(235)	(378)
Net Income	$ 46,312	$ 51,532
Basic Earnings Per Common Share:		
Continuing Operations	$ 1.581	$ 1.781
Discontinued Operations	(0.008)	(0.013)

Basic Earnings Per Common Share	$	1.573	$	1.768
Average Shares of Common Stock Outstanding - Basic		29,449		29,140
Diluted Earnings Per Common Share:				
Continuing Operations	$	1.575	$	1.777
Discontinued Operations		(0.008)		(0.013)
Diluted Earnings Per Common Share	$	1.567	$	1.764
Average Shares of Common Stock Outstanding - Diluted		29,561		29,215
Dividends Declared per Common Share	$	0.735	$	0.675

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

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
Net Income	$ 8,531	$ 14,916
Other Comprehensive Loss, Net of Tax:*		
Unrealized Gain on Equity Investments	41	109
Unrealized Loss on Derivatives - Other	(1,277)	(1,780)
Other Comprehensive Loss of Affiliated Companies	(858)	-
Other Comprehensive Loss - Net of Tax*	(2,094)	(1,671)
Comprehensive Income	$ 6,437	$ 13,245

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net Income	$ 46,312	$ 51,532
Other Comprehensive (Loss) Income, Net of Tax:*		
Unrealized Gain on Equity Investments	221	199
Unrealized Gain on Derivatives - Other	64	323
Other Comprehensive Loss of Affiliated Companies	(858)	-
Other Comprehensive (Loss) Income - Net of Tax*	(573)	522
Comprehensive Income	$ 45,739	$ 52,054

* Determined using a combined statutory tax rate of 41.08%.

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

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In Thousands)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net Cash Provided by Operating Activities	$ 104,733	$ 24,719
Cash Flows from Investing Activities:		
Net Proceeds from Sale (Net Purchase) of Restricted Investments	14,449	(22,797)
Capital Expenditures	(40,915)	(58,377)
Purchase of Company Owned Life Insurance	(3,917)	-
Investment in Affiliate	(7,463)	-
Other	-	(650)
Net Cash Used in Investing Activities	(37,846)	(81,824)
Cash Flows from Financing Activities:		
Net (Repayments of) Borrowings from Lines of Credit	(48,915)	28,300
Proceeds from Issuance of Long-Term Debt	-	41,400
Principal Repayments of Long-Term Debt	(2,364)	(2,405)
Dividends on Common Stock	(14,431)	(13,116)
Proceeds from Sale on Common Stock	5,105	4,271
Payments for Issuance of Long-Term Debt	-	(1,270)
Net Cash (Used in) Provided by Financing Activities	(60,605)	57,180
Net Increase in Cash and Cash Equivalents	6,282	75
Cash and Cash Equivalents at Beginning of Period	7,932	4,884
Cash and Cash Equivalents at End of Period	$ 14,214	$ 4,959

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

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In Thousands)

	September 30, 2007	December 31, 2006
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$ 1,112,940	$ 1,079,614
Accumulated Depreciation	(271,925)	(257,781)
Nonutility Property and Equipment, at cost	112,103	106,657
Accumulated Depreciation	(10,979)	(8,485)
Property, Plant and Equipment - Net	942,139	920,005
Investments:		
Available-for-Sale Securities	6,794	6,356
Restricted	8,602	23,051
Investment in Affiliates	9,077	1,368
Total Investments	24,473	30,775
Current Assets:		
Cash and Cash Equivalents	14,214	7,932
Accounts Receivable	89,145	117,832
Unbilled Revenues	10,240	39,397
Provision for Uncollectibles	(5,682)	(5,224)
Natural Gas in Storage, average cost	150,864	145,130
Materials and Supplies, average cost	2,927	2,895
Prepaid Taxes	15,218	12,443
Derivatives - Energy Related Assets	25,743	45,627
Other Prepayments and Current Assets	6,660	5,692
Total Current Assets	309,329	371,724
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	197,529	196,962
Derivatives - Energy Related Assets	13,777	23,537
Unamortized Debt Issuance Costs	7,521	7,972
Contract Receivables	13,000	13,654
Other	12,999	8,403
Total Regulatory and Other Noncurrent Assets	244,826	250,528

Total Assets	$ 1,520,767	$ 1,573,032

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

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In Thousands)

	September 30, 2007	December 31, 2006
<u>Capitalization and Liabilities</u>		
Common Equity:		
Common Stock	$ 36,926	$ 36,657
Premium on Common Stock	245,723	239,763
Treasury Stock (at par)	(186)	-
Accumulated Other Comprehensive Loss	(8,364)	(7,791)
Retained Earnings	198,280	174,407
Total Common Equity	472,379	443,036
Long-Term Debt	357,928	358,022
Total Capitalization	830,307	801,058
Minority Interest	455	461
Current Liabilities:		
Notes Payable	145,685	194,600
Current Maturities of Long-Term Debt	99	2,369
Accounts Payable	64,272	101,615
Customer Deposits and Credit Balances	30,541	24,982
Margin Account Liability	6,128	-
Environmental Remediation Costs	25,154	26,439
Taxes Accrued	2,625	1,967
Derivatives - Energy Related Liabilities	14,431	42,124
Deferred Income Taxes - Net	15,812	10,687
Deferred Contract Revenues	5,737	5,066
Dividends Payable	7,237	-
Interest Accrued	5,422	6,458
Pension and Other Postretirement Benefits	776	788
Other Current Liabilities	4,097	5,699
Total Current Liabilities	328,016	422,794
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	174,795	177,220

Investment Tax Credits	2,230	2,470
Pension and Other Postretirement Benefits	33,718	33,162
Environmental Remediation Costs	56,726	45,391
Asset Retirement Obligations	24,501	23,970
Derivatives - Energy Related Liabilities	3,840	7,918
Regulatory Liabilities	53,104	50,797
Other	13,075	7,791
Total Deferred Credits and Other Noncurrent Liabilities	361,989	348,719
Commitments and Contingencies (Note 12)		
Total Capitalization and Liabilities	$ 1,520,767	$ 1,573,032

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

Notes to Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

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

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

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

BASIS OF PRESENTATION — The condensed consolidated financial statements include the accounts of SJI, its wholly owned subsidiaries and subsidiaries in which we have a controlling interest. All significant intercompany accounts and transactions have been eliminated. In management's opinion, the condensed consolidated financial statements reflect all normal and recurring adjustments needed to fairly present SJI's financial position and operating results at the dates and for the periods presented. SJI's businesses are subject to seasonal fluctuations and, accordingly, this interim financial information should not be the basis for estimating the full year's operating results. As permitted by the rules and regulations of the Securities and Exchange Commission the accompanying unaudited condensed consolidated financial statements contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These financial statements should be read in conjunction with SJI's 2006 Annual Report on Form 10-K for a more complete discussion of the Company's accounting policies and certain other information.

EQUITY INVESTMENTS -- In April 2007, Marina and a joint venture partner formed LVE Energy Partners, LLC (LVE), in which Marina has a 50% equity interest. LVE has entered into a contract to design, build, own and operate a district energy system and central energy center for a planned resort in Las Vegas, Nevada. SJI holds a significant variable interest in LVE but is not the primary beneficiary. As a result, this investment is accounted for under the equity method (see Note 12 for further discussion). The operations of LVE will be included on a pre-tax basis in the condensed consolidated statements of income under Equity in Affiliated Companies.

REVENUE BASED TAXES — SJI collects certain revenue-based energy taxes from customers. Such taxes include New Jersey State Sales Tax, Transitional Energy Facility Assessment (TEFA) and Public Utilities Assessment (PUA). State sales tax is recorded as a liability when billed to customers and is not included in revenue or operating expenses. TEFA and PUA are included in both utility revenue and cost of sales and totaled $0.9 million in both the three months ended September 30, 2007 and 2006, and $6.3 million and $5.6 million for the nine months ended September 30, 2007 and 2006, respectively.

CAPITALIZED INTEREST — SJG capitalizes interest on construction at the rate of return on rate base utilized by the New Jersey Board of Public Utilities (BPU) to set rates in its last base rate proceeding. Marina capitalizes interest on construction projects in progress based on the actual cost of borrowed funds. SJG's amounts are included in Utility Plant and Marina's amounts are included in Nonutility Property and Equipment on the condensed consolidated balance sheets. Interest Charges are presented net of capitalized interest on the condensed consolidated statements of income. SJI capitalized interest of $0.1 million and $0.2 million for the three months ended September 30, 2007 and 2006, and $0.4 million and $1.0 million for the nine months ended September 30, 2007 and 2006, respectively.

DERIVATIVE INSTRUMENTS — The Company manages its portfolio of purchases and sales, as well as natural gas in storage, using a variety of instruments that include forward contracts, swap agreements, options contracts and futures contracts. These contracts are measured at fair value and recorded in Derivatives — Energy Related Assets or Derivatives — Energy Related Liabilities on the condensed consolidated balance sheets. The consolidated net unrealized pre-tax gain of $17.8 million, and $23.0 million (previously disclosed in the notes as $21.0 million which included certain losses on settled contracts related to gas in storage) was recorded in earnings during the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, the net unrealized pre-tax gain of $8.8 million and $36.5 million, respectively (previously disclosed in the notes as $31.0 million which included certain losses on settled contracts related to gas in storage) was recorded in earnings. These unrealized gains and losses are included with realized gains and losses in Operating Revenues – Nonutility.

As part of its gas purchasing strategy, SJG uses financial contracts through SJRG to hedge against forward price risk. The costs or benefits of these short-term contracts are recoverable through SJG's Basic Gas Supply Service (BGSS) clause, subject to BPU approval. As of September 30, 2007 and December 31, 2006, SJG had $4.7 million and $16.7 million of costs, respectively, included in its BGSS related to open financial contracts.

The Company has entered into interest rate derivatives and similar agreements to hedge exposure to increasing interest rates, and the impact of those rates on cash flows of variable-rate debt. These interest rate derivatives have been designated as cash flow hedges and are included in Other Noncurrent Assets and Other Noncurrent Liabilities. There have been no significant changes to the Company's active interest rate swaps since December 31, 2006 which are described in Note 1 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2006.

The differential to be paid or received as a result of these swap agreements is accrued as interest rates change and is recognized as an adjustment to interest expense. As of September 30, 2007 and December 31, 2006, the net market value of these swaps was not significant. The market value represents the amount SJI would have to pay the counterparty, or the counterparty would have to pay SJI, to terminate these contracts as of those dates.

TREASURY STOCK – SJI uses the par value method of accounting for treasury stock. As of September 30, 2007, SJI held 148,745 shares of treasury stock. These shares are related to deferred compensation arrangements where the amounts earned are held in the stock of SJI.

NEW ACCOUNTING PRONOUNCEMENTS — On January 1, 2007 SJI adopted the provisions of FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." This Interpretation provides guidance on the recognition and measurement of uncertain tax positions in the financial statements.

As a result of the implementation of FIN 48, SJI recognized a $0.8 million reduction to beginning retained earnings as a cumulative effect adjustment and a noncurrent deferred tax asset of $1.8 million. The total unrecognized tax benefits as of January 1, 2007 were $2.6 million including $0.5 million of accrued interest and penalties. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is not significant. The Company's policy is to record interest and penalties related to unrecognized tax benefits as interest expense and other expense respectively. These amounts were not significant for the three and nine months ended September 30, 2007. There have been no material changes to the unrecognized tax benefits for the three and nine months ended September 30, 2007 and the Company does not anticipate any material changes in the total unrecognized tax benefits within the next 12 months.

The unrecognized tax benefits are primarily related to an uncertainty of state income tax issues and the timing of certain deductions taken on the Company's income tax returns. Federal income tax returns from 2004 forward and state income tax returns primarily from 2003 forward are open and subject to examination.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (GAAP), and expands disclosures about fair value measurements. This statement is effective in fiscal years beginning after November 15, 2007. Management is currently evaluating the impact that the adoption of this statement will have on the Company's consolidated financial statements.

In January 2007, the FASB posted Statement 133 Implementation Issue No. G26, "Cash Flow Hedges: Hedging Interest Cash Flows on Variable-Rate Assets and Liabilities That Are Not Based on a Benchmark Interest Rate." This issue provides guidance on the designated risks that can be hedged in a cash flow hedge of a variable-rate financial asset or liability for which the interest rate is not based solely on an index, including situations in which an interest rate is reset through an auction process. This issue was effective April 1, 2007. The adoption of this issue did not have a material effect on the Company's condensed consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." The statement permits entities to choose to measure certain financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective for the first fiscal year beginning after November 15, 2007. Management is currently evaluating the impact that the adoption of this statement will have on the Company's consolidated financial statements.

In April 2007, the FASB posted FASB Staff Position FIN 39-1 "Amendment of FASB Interpretation No. 39" which addresses questions received by the FASB staff regarding Interpretation 39 relating to the offsetting of amounts recognized for forward, interest rate swap, currency swap, option, and other conditional or exchange contracts. The guidance in this FSP is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact that the adoption of this position will have on the Company's consolidated financial statements.

2. STOCK-BASED COMPENSATION PLAN:

Under the Amended and Restated 1997 Stock-Based Compensation Plan, no more than 2,000,000 shares in the aggregate may be issued to SJI's officers (Officers), non-employee directors (Directors) and other key employees. The plan will terminate on January 26, 2015, unless terminated earlier by the Board of Directors. No options were granted or outstanding during the three and nine months ended September 30, 2007 and no stock appreciation rights have been issued under the plan. During the nine months ended September 30, 2007, SJI granted 44,106 restricted shares to Officers and other key employees. No shares were granted during the three months ended September 30, 2007. These restricted shares vest over a three-year period and are subject to SJI achieving certain market based performance targets as compared to a peer group average, which can cause the actual amount of shares that ultimately vest to range from between 0% to 150% of the original share units granted. During the three and nine months ended September 30, 2007, SJI did not grant any restricted shares to Directors. Shares issued to Directors vest over a three-year service period but contain no performance conditions. As a result, 100% of the shares granted generally vest.

See Note 2 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2006 for related accounting policy.

The following table summarizes the nonvested restricted stock awards outstanding at September 30, 2007 and the assumptions used to estimate the fair value of the awards:

	Grant Date	Shares Outstanding	Fair Value Per Share	Expected Volatility	Risk-Free Interest Rate
Officers & Key Employees -	Jan. 2005	34,311	$ 25.155	15.5%	3.4%
	Jan. 2006	36,591	$ 27.950	16.9%	4.5%
	Jan. 2007	40,121	$ 29.210	18.5%	4.9%
Directors -	Dec. 2004	5,220	$ 24.955	-	-
	Dec. 2005	6,340	$ 29.970	-	-
	Dec. 2006	9,261	$ 34.020	-	-

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

The following table summarizes the total compensation cost for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Officers & Key Employees	$ 249	$ 230	$ 747	$ 689
Directors	52	33	156	99
Total Cost	301	263	903	788
Capitalized	(28)	(29)	(81)	(86)
Net Expense	$ 273	$ 234	$ 822	$ 702

As of September 30, 2007, there was $1.6 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the restricted stock plans. That cost is expected to be recognized over a weighted average period of 2.1 years.

The following table summarizes information regarding restricted stock award activity during the nine months ended September 30, 2007 excluding accrued dividend equivalents:

	Officers & Other Key Employees	Directors
Nonvested Shares Outstanding, January 1, 2007	116,432	20,821
Granted	44,106	-
Vested*	(42,135)	-
Forfeited	(7,380)	-
Nonvested Shares Outstanding, September 30, 2007	111,023	20,821

* Actual shares awarded to officers upon vesting, including dividend equivalents and adjustments for performance measures totaled 69,781 shares.

During the nine months ended September 30, 2007 and 2006, SJI awarded 69,781 shares at a market value of $2.3 million and 101,009 shares at a market value of $2.9 million, respectively. The Company has a policy of issuing new shares to satisfy its obligations under these plans; therefore, there are no cash payment requirements resulting from the normal operation of this plan. However, a change in control could result in such shares becoming nonforefeitable or immediately payable in cash. At the discretion of the Officers and other key employees, the receipt of vested shares can be deferred until future periods. These deferred shares are included in Treasury Stock on the Condensed Consolidated Balance Sheets.

3. DISCONTINUED OPERATIONS:

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

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

Summarized operating results of the discontinued operations for the three and nine months ended September 30, were (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Loss before Income Taxes:				
Sand Mining	$ (37)	$ (218)	$ (316)	$ (447)
Fuel Oil	(13)	(11)	(32)	(134)
Income Tax Benefits	17	80	113	203
Loss from Discontinued Operations — Net	$ (33)	$ (149)	$ (235)	$ (378)
Earnings Per Common Share from Discontinued Operations — Net:				
Basic and Diluted	$ (0.001)	$ (0.005)	$ (0.008)	$ (0.013)

4. COMMON STOCK:

The following shares were issued and outstanding at September 30:

	2007
Beginning Balance, January 1	29,325,593
New Issues During Period:	
Dividend Reinvestment Plan	145,191
Stock-Based Compensation Plan	69,781
Ending Balance, September 30	29,540,565

The par value ($1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately $6.7 million, was recorded in Premium on Common Stock.

EARNINGS PER COMMON SHARE — Basic EPS is based on the weighted-average number of common shares outstanding. EPS is presented in accordance with FASB Statement No. 128, “Earnings Per Share,” which establishes standards for computing and presenting basic and diluted EPS. The incremental shares required for inclusion in the denominator for the diluted EPS calculation were 108,703 and 94,735 shares for the three months and 112,199 and 75,537 shares for the nine months ended September 30, 2007 and 2006, respectively. These shares relate to SJI’s restricted stock as discussed in Note 2.

DIVIDEND REINVESTMENT PLAN (DRP) — Newly issued shares of common stock offered through the DRP are issued directly by SJI. As of September 30, 2007, SJI reserved approximately 1.2 million shares of authorized, but unissued, common stock for future issuance through the DRP.

5. RESTRICTED INVESTMENTS:

In accordance with the terms of the Marina and certain SJG loan agreements, unused proceeds are required to be escrowed pending approved construction expenditures. As of September 30, 2007 and December 31, 2006, the escrowed proceeds, including interest earned, totaled $8.6 million and $12.7 million, respectively.

SJRG maintains a margin account with a national investment firm to support its risk management activities. The balance required to be held in this margin account increases as the net value of the outstanding energy related financial contracts with this investment firm decreases. As of September 30, 2007, there was no balance in this account. As of December 31, 2006, the balance of this account was $10.4 million. As of September 30, 2007, the Company is holding $6.1 million in a margin account received from this investment firm as the value of the related financial contracts has increased. This balance is reflected in Margin Account Liability on the condensed consolidated balance sheets.

6. SEGMENTS OF BUSINESS:

SJI operates in several different operating segments. Gas Utility Operations (SJG) consists primarily of natural gas distribution to residential, commercial and industrial customers. Wholesale Gas Operations include SJRG’s activities. SJE is involved in both retail gas and retail electric activities. Retail Gas and Other Operations include natural gas acquisition and transportation service business lines and other energy service projects. Retail Electric Operations consist of electricity acquisition and transportation to commercial and industrial customers. On-Site Energy Production consists of Marina’s thermal energy facility and other energy-related projects. Appliance Service Operations includes SJESP’s servicing of appliances via the sale of appliance service programs as well as on a time and materials basis, and the installation of residential and small commercial HVAC systems.

Information about SJI's operations in different operating segments for the three and nine months ended September 30 is presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Operating Revenues:				
Gas Utility Operations	$ 84,421	$ 87,714	$ 458,280	$ 469,802
Wholesale Gas Operations	18,176	30,889	55,059	57,408
Retail Gas and Other Operations	29,393	26,044	128,126	119,816
Retail Electric Operations	13,502	14,263	39,079	38,928
On-Site Energy Production	11,419	9,550	30,601	23,620
Appliance Service Operations	4,228	3,611	11,924	10,961
Corporate & Services	3,203	2,910	9,989	9,099
Subtotal	164,342	174,981	733,058	729,634
Intersegment Sales	(8,114)	(20,276)	(36,744)	(48,549)
Total Operating Revenues	$ 156,228	$ 154,705	$ 696,314	$ 681,085

Operating Income:								
Gas Utility Operations	$	2,190	$	2,907	$	59,637	$	55,647
Wholesale Gas Operations		14,319		25,093		27,624		40,492
Retail Gas and Other Operations		164		(271)		108		(1,996)
Retail Electric Operations		412		1,412		1,789		3,494
On-Site Energy Production		2,925		2,621		7,049		6,128
Appliance Service Operations		602		426		531		1,676
Corporate and Services		255		88		498		390
Total Operating Income	$	20,867	$	32,276	$	97,236	$	105,831
Depreciation and Amortization:								
Gas Utility Operations	$	7,305	$	6,381	$	21,751	$	18,905
Wholesale Gas Operations		2		2		5		7
Retail Gas and Other Operations		4		2		9		7
Appliance Services Operations		74		60		206		175
On-Site Energy Production		724		622		2,225		1,544
Corporate and Services		31		60		185		173
Total Depreciation and Amortization	$	8,140	$	7,127	$	24,381	$	20,811
Interest Expense:								
Gas Utility Operations	$	5,371	$	5,736	$	15,403	$	16,069
Wholesale Gas Operations		563		609		1,758		1,519
Retail Gas and Other Operations		19		36		155		136
On-Site Energy Production		913		1,120		2,707		2,303
Corporate and Services		1,036		943		2,906		2,560
Subtotal		7,902		8,444		22,929		22,587
Intersegment Borrowings		(936)		(982)		(2,806)		(2,542)
Total Interest Expense	$	6,966	$	7,462	$	20,123	$	20,045
Property Additions:								
Gas Utility Operations	$	12,040	$	10,416	$	36,333	$	39,665
Wholesale Gas Operations		330		-		330		3
Retail Gas and Other Operations		18		3		49		8
Appliance Service Operations		29		72		173		242