SOUTH JERSEY INDUSTRIES INC
Form 10-Q
August 07, 2012

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 June 30, 2012
OR

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

For the transition period from ________________ to __________________

Commission File Number 1-6364

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

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

1 South Jersey Plaza, Folsom, NJ 08037
(Address of principal executive offices, including zip code)
(609) 561-9000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of August 1, 2012 there were 30,865,642 shares of the registrant's common stock outstanding.

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Item 1. Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended June 30, 2012	2011
Operating Revenues:		
Utility	$59,056	$64,970
Nonutility	62,857	95,507
Total Operating Revenues	121,913	160,477
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	20,286	28,042
- Nonutility	49,233	81,316
Operations	26,416	24,491
Maintenance	3,371	3,215
Depreciation	10,485	8,853
Energy and Other Taxes	1,865	2,121
Total Operating Expenses	111,656	148,038
Operating Income	10,257	12,439
Other Income and Expense	3,658	3,805
Interest Charges	(5,195)	(6,234)
Income Before Income Taxes	8,720	10,010
Income Taxes	1,072	(3,004)
Equity in Earnings (Loss) of Affiliated Companies	1,040	(761)
Income from Continuing Operations	10,832	6,245
Loss from Discontinued Operations - (Net of tax benefit)	(498)	(166)
Net Income	$10,334	$6,079
Basic Earnings Per Common Share:		
Continuing Operations	$0.356	$0.209
Discontinued Operations	(0.016)	(0.006)
Basic Earnings Per Common Share	$0.340	$0.203
Average Shares of Common Stock Outstanding - Basic	30,393	29,953
Diluted Earnings Per Common Share:		
Continuing Operations	$0.355	$0.208
Discontinued Operations	(0.016)	(0.006)
Diluted Earnings Per Common Share	$0.339	$0.202
Average Shares of Common Stock Outstanding - Diluted	30,472	30,037
Dividends Declared per Common Share	$0.403	$0.365

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

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

	Six Months Ended June 30, 2012	2011
Operating Revenues:		
Utility	$238,258	$239,359
Nonutility	158,487	253,040
Total Operating Revenues	396,745	492,399
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	106,551	110,682
- Nonutility	119,836	214,896
Operations	54,198	50,185
Maintenance	6,563	6,224
Depreciation	20,089	17,505
Energy and Other Taxes	5,743	7,421
Total Operating Expenses	312,980	406,913
Operating Income	83,765	85,486
Other Income and Expense	5,531	10,377
Interest Charges	(10,688)	(12,215)
Income Before Income Taxes	78,608	83,648
Income Taxes	(14,812)	(25,514)
Equity in Earnings (Loss) of Affiliated Companies	1,247	(58)
Income from Continuing Operations	65,043	58,076
Loss from Discontinued Operations - (Net of tax benefit)	(634)	(549)
Net Income	$64,409	$57,527
Basic Earnings Per Common Share:		
Continuing Operations	$2.145	$1.941
Discontinued Operations	(0.021)	(0.019)
Basic Earnings Per Common Share	$2.124	$1.922
Average Shares of Common Stock Outstanding - Basic	30,321	29,926
Diluted Earnings Per Common Share:		
Continuing Operations	$2.140	$1.935
Discontinued Operations	(0.021)	(0.018)
Diluted Earnings Per Common Share	$2.119	$1.917
Average Shares of Common Stock Outstanding - Diluted	30,397	30,014
Dividends Declared per Common Share	$0.806	$0.730

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

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

	Three Months Ended June 30,	
	2012	2011
Net Income	$10,334	$6,079
Other Comprehensive (Loss) Income, Net of Tax:*		
Unrealized (Loss) Gain on Available-for-Sale Securities	(136)	51
Unrealized Loss on Derivatives - Other	(415)	(50)
Other Comprehensive Income of Affiliated Companies	320	246
Other Comprehensive (Loss) Income - Net of Tax*	(231)	247
Comprehensive Income	$10,103	$6,326

	Six Months Ended June 30,	
	2012	2011
Net Income	$64,409	$57,527
Other Comprehensive Loss, Net of Tax:*		
Unrealized Gain (Loss) on Available-for-Sale Securities	215	(103)
Unrealized (Loss) Gain on Derivatives - Other	(225)	57
Other Comprehensive Loss of Affiliated Companies	(1,962)	(833)
Other Comprehensive Loss - Net of Tax*	(1,972)	(879)
Comprehensive Income	$62,437	$56,648

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

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

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

	Six Months Ended June 30, 2012	2011
Net Cash Provided by Operating Activities	$56,213	$121,982
Cash Flows from Investing Activities:		
Capital Expenditures	(96,891)	(67,778)
Net Proceeds from Sale of Restricted Investments in Margin Account	7,775	3,380
Investment in Long-Term Receivables	(2,871)	(2,390)
Proceeds from Long-Term Receivables	3,781	2,418
Purchase of Company Owned Life Insurance	(3,525)	(3,525)
Investment in Affiliate	(28,979)	(21,867)
Advances on Notes Receivable - Affiliate	(58,178)	(24,108)
Repayment of Notes Receivable - Affiliate	4,681	38,713
Other	(584)	(5,180)
Net Cash Used in Investing Activities	(174,791)	(80,337)
Cash Flows from Financing Activities:		
Net Borrowings from (Repayments of) Short-Term Credit Facilities	1,900	(55,650)
Proceeds from Issuance of Long-Term Debt	150,000	—
Principal Repayments of Long-Term Debt	(35,000)	—
Payments for Issuance of Long-Term Debt	(583)	(28)
Premium for Early Retirement of Debt	(700)	—
Dividends on Common Stock	(12,200)	(10,933)
Proceeds from Sale of Common Stock	9,256	—
Proceeds from Finance Obligation	—	23,425
Net Cash Provided by (Used in) Financing Activities	112,673	(43,186)
Net Decrease in Cash and Cash Equivalents	(5,905)	(1,541)
Cash and Cash Equivalents at Beginning of Period	7,538	2,363
Cash and Cash Equivalents at End of Period	$1,633	$822

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

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

	June 30, 2012	December 31, 2011
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$1,590,771	$1,515,274
Accumulated Depreciation	(367,710)	(357,245)
Nonutility Property and Equipment, at cost	231,968	221,051
Accumulated Depreciation	(31,608)	(26,687)
Property, Plant and Equipment - Net	1,423,421	1,352,393
Investments:		
Available-for-Sale Securities	7,022	6,677
Restricted	10,884	18,658
Investment in Affiliates	60,604	31,815
Total Investments	78,510	57,150
Current Assets:		
Cash and Cash Equivalents	1,633	7,538
Accounts Receivable	131,727	135,253
Unbilled Revenues	12,299	42,961
Provision for Uncollectibles	(6,250)	(5,337)
Notes Receivable - Affiliate	38,626	2,747
Natural Gas in Storage, average cost	50,935	68,823
Materials and Supplies, average cost	2,888	2,794
Deferred Income Taxes - Net	—	12,779
Prepaid Taxes	27,938	22,303
Derivatives - Energy Related Assets	31,254	37,461
Other Prepayments and Current Assets	13,396	13,287
Total Current Assets	304,446	340,609
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	316,256	315,221
Derivatives - Energy Related Assets	10,397	8,135
Unamortized Debt Issuance Costs	8,727	7,009
Notes Receivable-Affiliate	125,267	111,946
Contract Receivables	13,503	13,280
Other	45,464	41,767
Total Regulatory and Other Noncurrent Assets	519,614	497,358
Total Assets	$2,325,991	$2,247,510

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

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

	June 30, 2012	December 31, 2011
Capitalization and Liabilities		
Equity:		
Common Stock	$38,052	$37,765
Premium on Common Stock	283,655	273,303
Treasury Stock (at par)	(180)	(193)
Accumulated Other Comprehensive Loss	(30,410)	(28,438)
Retained Earnings	381,633	341,677
Total Equity	672,750	624,114
Long-Term Debt	541,400	424,213
Total Capitalization	1,214,150	1,048,327
Current Liabilities:		
Notes Payable	323,300	321,400
Current Portion of Long-Term Debt	—	2,187
Accounts Payable	109,882	153,666
Customer Deposits and Credit Balances	20,457	24,914
Environmental Remediation Costs	23,908	24,721
Taxes Accrued	2,068	3,168
Derivatives - Energy Related Liabilities	19,340	38,738
Deferred Income Taxes - Net	7,094	—
Deferred Contract Revenues	121	996
Dividends Payable	12,253	—
Interest Accrued	6,224	6,408
Pension Benefits	1,240	1,275
Other Current Liabilities	5,954	10,498
Total Current Liabilities	531,841	587,971
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	287,034	295,434
Investment Tax Credits	761	905
Pension and Other Postretirement Benefits	89,073	109,021
Environmental Remediation Costs	69,140	69,439
Asset Retirement Obligations	29,931	29,430
Derivatives - Energy Related Liabilities	5,574	7,367
Derivatives - Other	14,821	14,046
Regulatory Liabilities	47,946	48,311
Finance Obligation	22,094	22,549
Other	13,626	14,710

Total Deferred Credits and Other Noncurrent Liabilities	580,000	611,212
Commitments and Contingencies (Note 11)		
Total Capitalization and Liabilities	$2,325,991	$2,247,510

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

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Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

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

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

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

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

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. We eliminate all significant intercompany accounts and transactions. In management's opinion, the condensed consolidated financial statements reflect all normal and recurring adjustments needed to fairly present SJI's financial position,operating results and cash flows at the dates and for the periods presented. SJI's businesses are subject to seasonal fluctuations and, accordingly, this interim financial information should not be the basis for estimating the full year's operating results. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC), the accompanying unaudited condensed consolidated financial statements contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These financial statements should be read in conjunction with SJI's 2011 Annual Report on Form 10-K for a more complete discussion of the Company's accounting policies and certain other information.

REVENUE BASED TAXES — SJI collects certain revenue-based energy taxes from customers. Such taxes include New Jersey State Sales Tax, Transitional Energy Facility Assessment (TEFA) and Public Utilities Assessment (PUA). State sales tax is recorded as a liability when billed to customers and is not included in revenue or operating expenses. TEFA and PUA are included in both utility revenue and cost of sales and totaled $0.9 million and $1.2 million for the three months ended June 30, 2012 and 2011, respectively, and $3.4 million and $5.0 million for the six months ended June 30, 2012 and 2011, respectively. TEFA, which accounts for the majority of the revenue based taxes, is subject to a planned phase-out, which decreased rates by 25% effective January 1, 2012.

GAS EXPLORATION AND DEVELOPMENT - The Company capitalizes all costs associated with gas property acquisition, exploration and development activities under the full cost method of accounting. Capitalized costs include costs related to unproved properties, which are not amortized until proved reserves are found or it is determined that the unproved properties are impaired. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. During the six months ended June 30, 2012, the Company recorded $1.1 million of impairment charges within Other Income and Expense on the condensed consolidated statement of income due to a reduction in the expected cash flows to be received from certain shallow wells in the Marcellus region. No impairment charges were recorded during the six months ended June 30, 2011. As of June 30, 2012 and December 31, 2011, $9.1 million and $9.6 million, respectively, related to interests in proved and unproved properties in Pennsylvania, net of amortization, is included with Nonutility Property and Equipment and Other Noncurrent Assets on the condensed consolidated balance sheets.

TREASURY STOCK – SJI uses the par value method of accounting for treasury stock. As of June 30, 2012 and December 31, 2011, SJI held 143,742 and 154,718 shares of treasury stock, respectively. These shares are related to deferred compensation arrangements where the amounts earned are held in the stock of SJI.

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

NEW ACCOUNTING PRONOUNCEMENTS — Other than as described below, no new accounting pronouncement issued or effective during 2011 and 2012 had, or is expected to have, a material impact on the condensed consolidated financial statements.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU amends ASC Topic 820 to include a consistent definition of the term "fair value" and set forth common requirements for measuring fair value and disclosing information about fair value measurements in financial statements. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance modified the disclosures around fair value, but did not have an impact on the Company's financial statement results.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In January 2012, the FASB issued ASU 2011-12, Deferral of the Effective Date for the Presentation of Reclassification Adjustments Out of Accumulated Other Comprehensive Income, which defers the provisions related to the presentation of reclassification adjustments. The other portions of the ASU remain unchanged and are effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance did not have an impact on the Company's financial statement results.

In January 2012, the FASB issued ASU 2011-11, Enhanced Disclosure Requirements Concerning Offsetting of Financial Assets and Financial Liabilities. This ASU amends ASC 210-20 to add disclosure requirements in respect of the offsetting of financial assets and financial liabilities. The new guidance is effective for fiscal years beginning on or after January 1, 2013. Management does not anticipate that the adoption of this guidance will have an impact on the Company's financial statement results.

2. STOCK-BASED COMPENSATION PLAN:

Under the Amended and Restated 1997 Stock-Based Compensation Plan, no more than 2,000,000 shares in the aggregate may be issued to SJI's officers (Officers), non-employee directors (Directors) and other key employees. The plan will terminate on January 26, 2015, unless terminated earlier by the Board of Directors. No options were granted or outstanding during the six months ended June 30, 2012 and 2011. No stock appreciation rights have been issued under the plan. During the six months ended June 30, 2012 and 2011, SJI granted 40,955 and 40,711 restricted shares to Officers and other key employees, respectively. These restricted shares vest over a three-year period and are subject to SJI achieving certain market and earnings-based performance targets as compared to a peer group average, which can cause the actual amount of shares that ultimately vest to range from between 0% to 150% of the original share units granted. Grants containing market-based performance targets have been issued in each of the last three years and use SJI's total shareholder return (TSR) relative to a peer group to measure performance. Beginning with 2012, grants containing earnings-based targets have also been issued. These new grants are based on SJI's earnings per share growth rate relative to a peer group to measure performance. During the six months ended June 30, 2012 and 2011, SJI granted 9,904 and 12,220 restricted shares, respectively, to Directors. Shares issued to Directors vest over a three-year service period and contain no performance conditions. As a result, 100% of the shares granted generally vest.

See Note 2 to the Consolidated Financial Statements in Item 8 of SJI’s Annual Report on Form 10-K as of December 31, 2011 for the related accounting policy.

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The following table summarizes the nonvested restricted stock awards outstanding at June 30, 2012 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. 2010 - TSR	52,404	$39.020	29.0 %	1.65 %
	Jan. 2011 - TSR	40,227	$50.940	27.5 %	1.01 %
	Jan. 2012 - TSR	20,389	$51.230	22.5 %	0.43 %
	Jan. 2012 - EPS	20,389	$56.930	N/A	N/A
Directors -	Jan. 2010	11,690	$37.825	—	—
	Jan. 2011	7,332	$52.940	—	—
	Jan. 2012	8,666	$56.580	—	—

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

The following table summarizes the total stock-based compensation cost for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Officers & Key Employees	$524	$466	$1,048	$932
Directors	228	327	354	457
Total Cost	752	793	1,402	1,389
Capitalized	(58)	(55)	(115)	(110)
Net Expense	$694	$738	$1,287	$1,279

As of June 30, 2012, there was $3.9 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the restricted stock plans. That cost is expected to be recognized over a weighted average period of 2.0 years.

The following table summarizes information regarding restricted stock award activity during the six months ended June 30, 2012, excluding accrued dividend equivalents:

	Officers &Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2012	92,907	21,914	$44.112
Granted	40,955	9,904	$54.567
Canceled/Forfeited	(453)	—	$49.430
Vested	—	(4,130)	$47.919

Nonvested Shares Outstanding, June 30, 2012	133,409	27,688	$47.300

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During the six months ended June 30, 2012 and 2011, SJI awarded 33,322 shares to its Officers and other key employees, which had vested at December 31, 2011, at a market value of $1.9 million, and 69,271 shares, which had vested at December 31, 2010, at a market value of $3.7 million, respectively. Also, during the six months ended June 30, 2012 and 2011, SJI awarded 9,904 and 12,220 shares to its Directors at a market value of $0.6 million for each period. The Company has a policy of issuing new shares to satisfy its obligations under these plans; therefore, there are no cash payment requirements resulting from the normal operation of this plan. However, a change in control could result in such shares becoming nonforfeitable or immediately payable in cash. At the discretion of the Officers, Directors and other key employees, the receipt of vested shares can be deferred until future periods. These deferred shares are included in Treasury Stock on the condensed consolidated balance sheets.

3. DISCONTINUED OPERATIONS AND AFFILATIONS:

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 six months ended June 30, were (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Loss before Income Taxes:				
Sand Mining	$(705)	$(157)	$(901)	$(351)
Fuel Oil	(61)	(99)	(75)	(494)
Income Tax Benefits	268	90	342	296
Loss from Discontinued Operations — Net	$(498)	$(166)	$(634)	$(549)
Earnings Per Common Share from Discontinued Operations — Net:				
Basic	$(0.016)	$(0.006)	$(0.021)	$(0.019)
Diluted	$(0.016)	$(0.006)	$(0.021)	$(0.018)

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

Marina and a joint venture partner formed the following entities in which Marina has a 50% equity interest:

LVE Energy Partners, LLC (LVE), which 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.

Energenic – US, LLC (Energenic), which develops and operates on-site, self-contained, energy-related projects.

During the first six months of 2012 and 2011, the Company made investments in, and provided net advances to, unconsolidated affiliates of $82.5 million and $7.3 million, respectively. The purpose of these investments and advances was to acquire two district energy systems in Hartford, Connecticut, and to develop landfill gas-fired electric production facilities, solar and thermal energy projects, and to cover certain project related costs of LVE (See Note

11). As of June 30, 2012 and December 31, 2011, the outstanding balance on these Notes Receivable – Affiliate was $163.9 million and $114.7 million, respectively. Approximately $109.3 million of these notes are secured by property, plant and equipment of the affiliates, accrue interest at 7.5% and are to be repaid through 2025. The remaining $54.6 million of these notes are unsecured, and are either non-interest bearing or accrue interest at variable rates and are to be repaid when the affiliate secures permanent financing.

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SJI holds significant variable interests in these entities but is not the primary beneficiary. Consequently, these entities are accounted for under the equity method because SJI does not have both a) the power to direct the activities of the entity that most significantly impact the entity's economic performance and b) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. As of June 30, 2012, the Company had a net asset of approximately $58.7 million included in Investment in Affiliates and Other Noncurrent Liabilities on the condensed consolidated balance sheets related to equity method investees, in addition to Notes Receivable – Affiliate as discussed above. SJI's maximum exposure to loss from these entities as of June 30, 2012 is limited to its combined equity contributions and the Notes Receivable-Affiliate in the amount of $225.6 million.

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

In April 2012, Energenic acquired The Energy Network, LLC, a holding company for the Hartford Steam Company, TEN Companies and CNE Power I, LLC, for approximately $50.5 million. In conjunction with the acquisition, Marina made a capital contribution to Energenic of $7.6 million and provided $35.4 million of advances which are expected to be repaid by Energenic in 2012 when permanent financing is obtained.

4. COMMON STOCK:

The following shares were issued and outstanding at June 30:

	2012
Beginning Balance, January 1	30,212,453
New Issues During Period:	
Dividend Reinvestment Plan	185,746
Stock-Based Compensation Plan	43,226
Ending Balance, June 30	30,441,425

The par value ($1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately $10.4 million was recorded in Premium on Common Stock.

EARNINGS PER COMMON SHARE (EPS) — Basic EPS is based on the weighted-average number of common shares outstanding. The incremental shares required for inclusion in the denominator for the diluted EPS calculation were 79,355 and 83,688 for the three months ended June 30, 2012 and 2011, respectively, and 76,313 and 87,980 shares for the six months ended June 30, 2012 and 2011, respectively. These shares relate to SJI's restricted stock as discussed in Note 2.

DIVIDEND REINVESTMENT PLAN (DRP) —The Company offers a DRP which allows participating shareholders to purchase shares of SJI common stock by automatic reinvestment of dividends or optional purchases. From April 2008 through April 2011, shares of common stock offered by the DRP have been purchased in open market transactions. Beginning in May 2011, shares of common stock offered by the DRP have been issued directly by SJI from its authorized but unissued shares of common stock. For the six months ended June 30, 2012, $9.3 million of equity capital was raised through the DRP.

5. FINANCIAL INSTRUMENTS:

RESTRICTED INVESTMENTS — In accordance with the terms of certain Marina and SJG loan agreements, unused proceeds are required to be escrowed pending approval of construction expenditures. As of both June 30, 2012 and

December 31, 2011, the escrowed proceeds, including interest earned, totaled $1.3 million.

The Company maintains margin accounts with selected counterparties to support its risk management activities. The balances required to be held in these margin accounts increase as the net value of the outstanding energy related contracts with the respective counterparties decrease. As of June 30, 2012 and December 31, 2011, the balances in these accounts totaled $9.5 million and $17.3 million, respectively. The carrying amounts of the Restricted Investments approximate their fair values at June 30, 2012 and December 31, 2011, which would be included in Level 1 of the fair value hierarchy (See Note 13 - Fair Value of Financial Assets and Financial Liabilities).

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LONG-TERM RECEIVABLES — SJG provides financing to customers for the purpose of attracting conversions to natural gas heating systems from competing fuel sources. The terms of these loans call for customers to make monthly payments over a period of up to five years with no interest. The carrying amounts of such loans were $12.6 million and $11.7 million as of June 30, 2012 and December 31, 2011, respectively. The current portion of these receivables is reflected in Accounts Receivable and the non-current portion is reflected in Contract Receivables on the condensed consolidated balance sheets. The carrying amounts noted above are net of unamortized discounts resulting from imputed interest in the amount of $1.3 million and $1.2 million as of June 30, 2012 and December 31, 2011, respectively. The annual amortization to interest is not material to the Company's condensed consolidated financial statements. The carrying amounts of these receivables approximate their fair value at June 30, 2012 and December 31, 2011, which would be included in Level 2 of the fair value hierarchy (See Note 13 - Fair Value of Financial Assets and Financial Liabilities).

CREDIT RISK - As of June 30, 2012, approximately $12.4 million, or 29.7%, of the current and noncurrent Derivatives – Energy Related Assets are with a single retail counterparty. This counterparty has contracts with a large number of diverse customers which minimizes the concentration of this risk. A portion of these contracts may be assigned to SJI in the event of a default by the counterparty.

FINANCE OBLIGATION