

SOUTH JERSEY INDUSTRIES INC

Form 10-Q

May 03, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-6364

SOUTH JERSEY INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

New Jersey

(State of incorporation)

1 South Jersey Plaza, Folsom, NJ 08037

(Address of principal executive offices, including zip code)

(609) 561-9000

(Registrant's telephone number, including area code)

22-1901645

(IRS employer identification no.)

Common Stock

(\$1.25 par value per share)

(Title of each class)

New York Stock Exchange

(Name of exchange on which registered)

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

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

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

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

Large accelerated filer ☒

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

Accelerated filer ☐

Smaller reporting company ☐

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

Yes ☐ No ☒

As of May 1, 2013 there were 31,960,311 shares of the registrant's common stock outstanding.



## TABLE OF CONTENTS

	PageNo.
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. <u>Unaudited Condensed Consolidated Financial Statements</u>	1
<u>Condensed Consolidated Statements of Income</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income</u>	2
<u>Condensed Consolidated Statements of Cash Flows</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Note 1. Summary of Significant Accounting Policies</u>	6
<u>Note 2. Stock-Based Compensation Plan</u>	7
<u>Note 3. Discontinued Operations and Affiliations</u>	9
<u>Note 4. Common Stock</u>	10
<u>Note 5. Financial Instruments</u>	10
<u>Note 6. Segments of Business</u>	12
<u>Note 7. Rates and Regulatory Actions</u>	15
<u>Note 8. Regulatory Assets &amp; Regulatory Liabilities</u>	15
<u>Note 9. Pension and Other Postretirement Benefits</u>	16
<u>Note 10. Unused Lines of Credit</u>	17
<u>Note 11. Commitments and Contingencies</u>	18
<u>Note 12. Derivative Instruments</u>	20
<u>Note 13. Fair Value of Financial Assets and Financial Liabilities</u>	22
<u>Note 14. Long-Term Debt</u>	25
<u>Note 15. Accumulated Other Comprehensive Loss</u>	25
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	45
<b>PART II OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	46
Item 1A. <u>Risk Factors</u>	46
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 6. <u>Exhibits</u>	46
<u>Signatures</u>	47

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Table of Contents

## Item 1. Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2013	2012
Operating Revenues:		
Utility	\$ 173,651	\$ 179,202
Nonutility	81,980	95,630
Total Operating Revenues	255,631	274,832
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	77,156	86,265
- Nonutility	75,145	70,603
Operations	32,689	27,782
Maintenance	3,422	3,192
Depreciation	11,407	9,604
Energy and Other Taxes	3,833	3,878
Total Operating Expenses	203,652	201,324
Operating Income	51,979	73,508
Other Income and Expense	3,869	1,873
Interest Charges	(4,708)	(5,493)
Income Before Income Taxes	51,140	69,888
Income Taxes	(7,772)	(15,884)
Equity in (Loss) Earnings of Affiliated Companies	(31)	207
Income from Continuing Operations	43,337	54,211
Loss from Discontinued Operations - (Net of tax benefit)	(471)	(136)
Net Income	\$42,866	\$54,075
Basic Earnings Per Common Share:		
Continuing Operations	\$ 1.365	\$ 1.792
Discontinued Operations	(0.015)	(0.004)
Basic Earnings Per Common Share	\$ 1.350	\$ 1.788
Average Shares of Common Stock Outstanding - Basic	31,757	30,249
Diluted Earnings Per Common Share:		
Continuing Operations	\$ 1.362	\$ 1.788
Discontinued Operations	(0.014)	(0.005)
Diluted Earnings Per Common Share	\$ 1.348	\$ 1.783
Average Shares of Common Stock Outstanding - Diluted	31,811	30,323
Dividends Declared per Common Share	\$0.443	\$0.403

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



Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Net Income	\$42,866	\$54,075
Other Comprehensive Income (Loss), Net of Tax:*		
Unrealized (Loss) Gain on Available-for-Sale Securities	(274	) 351
Unrealized Gain on Derivatives - Other	66	190
Other Comprehensive Income (Loss) of Affiliated Companies	5,014	(2,282 )
Other Comprehensive Income (Loss) - Net of Tax*	4,806	(1,741 )
Comprehensive Income	\$47,672	\$52,334

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

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

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Net Cash Provided by Operating Activities	\$55,886	\$42,159
Cash Flows from Investing Activities:		
Capital Expenditures	(40,604)	(45,387)
Net Proceeds from Sale (Purchase) of Restricted Investments in Margin Account	7,931	(4,538)
Investment in Long-Term Receivables	(1,947)	(1,480)
Proceeds from Long-Term Receivables	2,402	2,293
Purchase of Company Owned Life Insurance	(372)	—
Investment in Affiliate	(1,076)	(16,286)
Advances on Notes Receivable - Affiliate	(498)	(10,011)
Repayment of Notes Receivable - Affiliate	58,249	3,796
Other	—	(567)
Net Cash Provided by (Used in) Investing Activities	24,085	(72,180)
Cash Flows from Financing Activities:		
Net (Repayments of) Borrowings from Short-Term Credit Facilities	(90,500)	23,300
Payments for Issuance of Long-Term Debt	(11)	(172)
Proceeds from Sale of Common Stock	7,244	2,902
Net Cash (Used in) Provided by Financing Activities	(83,267)	26,030
Net Decrease in Cash and Cash Equivalents	(3,296)	(3,991)
Cash and Cash Equivalents at Beginning of Period	4,638	7,538
Cash and Cash Equivalents at End of Period	\$1,342	\$3,547

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

Table of Contents

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

	March 31, 2013	December 31, 2012
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	\$1,693,041	\$1,658,790
Accumulated Depreciation	(378,765	) (373,199 )
Nonutility Property and Equipment, at cost	331,699	328,638
Accumulated Depreciation	(39,423	) (36,208 )
Property, Plant and Equipment - Net	1,606,552	1,578,021
Investments:		
Available-for-Sale Securities	7,892	7,538
Restricted	9,973	17,903
Investment in Affiliates	77,230	75,825
Total Investments	95,095	101,266
Current Assets:		
Cash and Cash Equivalents	1,342	4,638
Accounts Receivable	279,061	195,293
Unbilled Revenues	42,707	40,938
Provision for Uncollectibles	(6,953	) (5,924 )
Notes Receivable - Affiliate	39,357	39,495
Natural Gas in Storage, average cost	43,466	55,517
Materials and Supplies, average cost	2,609	2,618
Prepaid Taxes	1,796	26,187
Derivatives - Energy Related Assets	22,330	24,242
Other Prepayments and Current Assets	15,903	11,833
Total Current Assets	441,618	394,837
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	335,089	352,656
Derivatives - Energy Related Assets	8,461	12,297
Unamortized Debt Issuance Costs	8,033	8,226
Notes Receivable-Affiliate	65,535	117,188
Contract Receivables	13,990	13,985
Other	53,898	52,964
Total Regulatory and Other Noncurrent Assets	485,006	557,316
Total Assets	\$2,628,271	\$2,631,440

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





Table of Contents

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

	March 31, 2013	December 31, 2012
Capitalization and Liabilities		
Equity:		
Common Stock	\$39,836	\$39,567
Premium on Common Stock	353,530	345,807
Treasury Stock (at par)	(167	) (182
Accumulated Other Comprehensive Loss	(26,299	) (31,105
Retained Earnings	410,891	382,127
Total Equity	777,791	736,214
Long-Term Debt	601,400	601,400
Total Capitalization	1,379,191	1,337,614
Current Liabilities:		
Notes Payable	248,400	338,900
Current Portion of Long-Term Debt	25,000	25,000
Accounts Payable	217,517	193,331
Customer Deposits and Credit Balances	16,005	17,757
Environmental Remediation Costs	23,215	21,026
Taxes Accrued	8,918	2,156
Derivatives - Energy Related Liabilities	20,222	23,828
Deferred Income Taxes - Net	8,906	10,812
Dividends Payable	14,102	—
Interest Accrued	6,142	6,635
Pension Benefits	1,236	1,272
Other Current Liabilities	7,342	11,127
Total Current Liabilities	597,005	651,844
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	300,611	289,489
Investment Tax Credits	553	618
Pension and Other Postretirement Benefits	94,710	105,168
Environmental Remediation Costs	88,638	91,072
Asset Retirement Obligations	39,754	39,385
Derivatives - Energy Related Liabilities	4,301	5,403
Derivatives - Other	12,062	13,462
Regulatory Liabilities	73,598	56,517
Finance Obligation	21,388	21,646
Other	16,460	19,222
Total Deferred Credits and Other Noncurrent Liabilities	652,075	641,982

Commitments and Contingencies (Note 11)

Total Capitalization and Liabilities	\$2,628,271	\$2,631,440
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

5

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Table of Contents

Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

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

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

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

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 2012 Annual Report on Form 10-K for a more complete discussion of the Company's accounting policies and certain other information.

Certain reclassifications have been made to the prior period segment disclosures to conform to the current period presentation. In all periods presented, net receivables between the Discontinued Operations segment and the Corporate and Services segment have been reclassified in the Identifiable Assets Segment disclosure in Note 6.

**REVENUE AND THROUGHPUT-BASED TAXES** — SJG collects certain revenue-based energy taxes from its customers. Such taxes include New Jersey State Sales Tax and Public Utilities Assessment (PUA). SJG also collects a throughput-based energy tax from customers in the form of a Transitional Energy Facility Assessment (TEFA). 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 \$2.2 million and \$2.5 million for the three months ended March 31, 2013 and 2012, respectively. The TEFA is subject to a planned phase-out which decreases the assessment in increments of 25% in 2012 and 2013 and is eliminated after December 31, 2013.

**GAS EXPLORATION AND DEVELOPMENT** - The Company capitalizes all costs associated with gas property acquisition, exploration and development activities under the full cost method of accounting. Capitalized costs include costs related to unproved properties, which are not amortized until proved reserves are found or it is determined that the unproved properties are impaired. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. No impairment was recorded during the three months ended March 31, 2013. During the three months ended March 31, 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. As of March 31, 2013 and December 31, 2012, \$8.9 million and \$9.0 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.

Table of Contents

**TREASURY STOCK** – SJI uses the par value method of accounting for treasury stock. As of March 31, 2013 and December 31, 2012, SJI held 133,687 and 145,414 shares of treasury stock, respectively. These shares are related to deferred compensation arrangements where the amounts earned are held in the stock of SJI.

**INCOME TAXES** — Deferred income taxes are provided for all significant temporary differences between the book and taxable bases of assets and liabilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 - “Income Taxes”. A valuation allowance is established when it is determined that it is more likely than not that a deferred tax asset will not be realized. Investment tax credits related to renewable energy facilities of 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 2013 and 2012 had, or is expected to have, a material impact on the condensed consolidated financial statements.

In January 2012, the FASB issued Accounting Standards Update (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. In February 2013, the FASB issued ASU 2013-01 Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which amends and clarifies the scope of the balance sheet offsetting disclosures required through ASU 2011-11. The new guidance is effective for fiscal years beginning on or after January 1, 2013. The adoption of this guidance modified the disclosures around derivative instruments, but did not have an impact on the Company's financial statement results.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU expands the disclosure requirements in ASC 220 and requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective lines in net income. The ASU requires an entity to present information about significant items reclassified out of accumulated other comprehensive income by component either on the face of the statement where net income is presented, or as a separate disclosure in the notes to the financial statements. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of this guidance modified the disclosures around accumulated other comprehensive income, but did not have an impact on the Company's financial statement results.

**2. STOCK-BASED COMPENSATION PLAN:**

Under the Amended and Restated 1997 Stock-Based Compensation Plan, no more than 2,000,000 shares in the aggregate may be issued to SJI's officers (Officers), non-employee directors (Directors) and other key employees. The plan will terminate on January 26, 2015, unless terminated earlier by the Board of Directors. No options were granted or outstanding during the three months ended March 31, 2013 and 2012. No stock appreciation rights have been issued under the plan. During the three months ended March 31, 2013 and 2012, SJI granted 56,464 and 40,709 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 (EPS) growth rate relative to a peer group to measure performance. During the three months

ended March 31, 2013 and 2012, SJI granted 12,285 and 9,904 restricted shares, respectively, to Directors. Shares issued to Directors in 2011 vest over a three-year service period and contain no performance conditions. Shares issued to Directors in 2012 and 2013 vest over twelve months and contain no performance conditions. As a result, 100% of the shares granted generally vest.

See Note 2 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2012 for the related accounting policy.

Table of Contents

The following table summarizes the nonvested restricted stock awards outstanding at March 31, 2013 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. 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
	Jan. 2013 - TSR	28,232	\$44.380	21.1	% 0.40 %
	Jan. 2013 - EPS	28,232	\$51.180	N/A	N/A
Directors -	Jan. 2011	7,332	\$52.940	—	—
	Jan. 2013	12,285	\$51.740	—	—

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

The following table summarizes the total stock-based compensation cost for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Officers & Key Employees	\$573	\$523
Directors	191	127
Total Cost	764	650
Capitalized	(63	)(58
Net Expense	\$701	\$592

As of March 31, 2013, there was \$4.8 million of total unrecognized compensation cost related to nonvested stock-based compensation awards granted under the restricted stock plans. That cost is expected to be recognized over a weighted average period of 2.0 years.

The following table summarizes information regarding restricted stock award activity during the three months ended March 31, 2013, excluding accrued dividend equivalents:

	Officers & Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2013	81,005	27,688	\$51.292
Granted	56,464	12,285	\$48.488
Vested	—	(20,356	) \$45.809
Nonvested Shares Outstanding, March 31, 2013	137,469	19,617	\$50.775





Table of Contents

During the three months ended March 31, 2013 and 2012, SJI awarded 66,077 shares to its Officers and other key employees, which had vested at December 31, 2012, at a market value of \$3.3 million, and 33,322 shares, which had vested at December 31, 2011, at a market value of \$1.9 million, respectively. Also, during the three months ended March 31, 2013 and 2012, SJI awarded 12,285 and 9,904 shares to its Directors at a market value of \$0.6 million for each period. The Company has a policy of issuing new shares to satisfy its obligations under these plans; therefore, there are no cash payment requirements resulting from the normal operation of these plans. However, a change in control could result in such shares becoming nonforfeitable or immediately payable in cash. At the discretion of the Officers, Directors and other key employees, the receipt of vested shares can be deferred until future periods. These deferred shares are included in Treasury Stock on the condensed consolidated balance sheets.

**3.DISCONTINUED OPERATIONS AND AFFILIATIONS:**

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

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

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

	Three Months Ended March 31,	
	2013	2012
(Loss) Income Before Income Taxes:		
Sand Mining	\$(72 )	\$(196 )
Fuel Oil	(652 )	(14 )
Income Tax Benefits	253	74
Loss from Discontinued Operations — Net	\$(471 )	\$(136 )
Earnings Per Common Share from Discontinued Operations — Net:		
Basic	\$(0.015 )	\$(0.004 )
Diluted	\$(0.014 )	\$(0.005 )

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

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

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

LVE Energy Partners, LLC (LVE) - In March 2013, substantially all of the assets of Marina's joint venture, LVE, an entity in which Marina has a 50% equity interest, were sold. As a result of the transaction, Marina received cash proceeds of \$57.6 million. See Note 11.

During the first three months of 2013 and 2012, the Company made investments in, and provided net advances to, unconsolidated affiliates, excluding the cash proceeds from LVE as discussed above, of \$1.1 million and \$22.5 million, respectively. The purpose of these investments and advances was to cover certain project related costs of affiliates and to develop landfill gas-fired electric production facilities, solar and thermal energy projects. As of March 31, 2013 and December 31, 2012, the outstanding balance on these Notes Receivable – Affiliate was \$104.9 million and \$156.7 million, respectively. Approximately \$99.4 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 \$5.5 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.

Table of Contents

SJI holds significant variable interests in these entities but is not the primary beneficiary. Consequently, these entities are accounted for under the equity method because SJI does not have both a) the power to direct the activities of the entity that most significantly impact the entity's economic performance and b) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. As of March 31, 2013, the Company had a net asset of approximately \$76.9 million included in Investment in Affiliates and Other Noncurrent Liabilities on the condensed consolidated balance sheets related to equity method investees, in addition to Notes Receivable – Affiliate as discussed above. SJI's maximum exposure to loss from these entities as of March 31, 2013 is limited to its combined equity contributions and the Notes Receivable-Affiliate in the amount of \$183.2 million.

**4.COMMON STOCK:**

The following shares were issued and outstanding at March 31:

	2013
Beginning Balance, January 1	31,653,262
New Issues During the Period:	
Dividend Reinvestment Plan	137,546
Stock-Based Compensation Plan	78,363
Ending Balance, March 31	31,869,171

The par value (\$1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately \$7.7 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 53,574 and 73,271 for the three months ended March 31, 2013 and 2012, respectively. These shares relate to SJI's restricted stock as discussed in Note 2.

**DIVIDEND REINVESTMENT PLAN (DRP)** —The Company offers a DRP which allows participating shareholders to purchase shares of SJI common stock by automatic reinvestment of dividends or optional purchases. Shares of common stock offered by the DRP have been issued directly by SJI from its authorized but unissued shares of common stock. The Company raised \$7.2 million and \$2.9 million of equity capital through the DRP during the three months ended March 31, 2013 and 2012, respectively.

**5.FINANCIAL INSTRUMENTS:**

**RESTRICTED INVESTMENTS** — In accordance with the terms of certain Marina and SJG loan agreements, unused proceeds are required to be escrowed pending approval of construction expenditures. As of both March 31, 2013 and December 31, 2012, 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 March 31, 2013 and December 31, 2012, the balances in these accounts totaled \$8.7 million and \$16.6 million, respectively. The carrying amounts of the Restricted Investments approximate their fair values at March 31, 2013 and December 31, 2012, which would be included in Level 1 of the fair value hierarchy (See Note 13 - Fair Value of Financial Assets and Financial Liabilities).

**LONG-TERM RECEIVABLES** — SJG provides financing to customers for the purpose of attracting conversions to natural gas heating systems from competing fuel sources. The terms of these loans call for customers to make monthly payments over a period of up to five years with no interest. The carrying amounts of such loans were \$14.0 million and \$13.6 million as of March 31, 2013 and December 31, 2012, 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 \$1.4 million and \$1.3 million as of March 31, 2013 and December 31, 2012, 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 March 31, 2013 and December 31, 2012, which would be included in Level 2 of the fair value hierarchy (See Note 13 - Fair Value of Financial Assets and Financial Liabilities).

Table of Contents

**CREDIT RISK** - As of March 31, 2013, approximately \$6.4 million, or 20.9%, 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** - During 2010, ACB Energy Partners LLC (ACB), a wholly-owned subsidiary of Energen, of which Marina has a 50% equity interest, completed construction of a combined heat and power generating facility to serve, under an energy services agreement, a thermal plant owned by Marina. Construction period financing was provided by Marina. Due to its continuing involvement in the facility, Marina is considered the owner of the facility for accounting purposes. As a result, the Company included costs to construct the facility within Nonutility Property, Plant and Equipment on the condensed consolidated balance sheets of \$23.6 million as of both March 31, 2013 and December 31, 2012, respectively. In addition, the Company included repayments from ACB to Marina on the construction loan within the Finance Obligation on the condensed consolidated balance sheets. Marina does not have a fixed payment obligation to ACB; as a result, the Finance Obligation is classified as a noncurrent liability on the condensed consolidated balance sheets. The costs to construct the facility and the repayments of the construction loan are amortized over the term of the energy services agreement. The impact on the condensed consolidated statements of income is not significant. As a result, the Company recorded \$21.4 million and 21.6 million, net of amortization, within Finance Obligation on the condensed consolidated balance sheets at March 31, 2013 and December 31, 2012, respectively.

**FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE** - The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The carrying amounts of SJI's financial instruments approximate their fair values at March 31, 2013 and December 31, 2012, except as noted below. For Long-Term Debt, in estimating the fair value, we use the present value of remaining cash flows at the balance sheet date. We based the estimates on interest rates available to SJI at the end of each period for debt with similar terms and maturities (Level 2 in the fair value hierarchy, see Note 13 - Fair Value of Financial Assets and Financial Liabilities). The estimated fair values of SJI's long-term debt, including current maturities, as of March 31, 2013 and December 31, 2012, were \$674.0 million and \$682.3 million, respectively. The carrying amounts of SJI's long-term debt, including current maturities, as of both March 31, 2013 and December 31, 2012, was \$626.4 million.

Table of Contents

## 6.SEGMENTS OF BUSINESS:

SJI operates in several different reportable operating segments which reflect the financial information regularly evaluated by the chief operating decision maker. Gas Utility Operations (SJG) consists primarily of natural gas distribution to residential, commercial and industrial customers. Wholesale Energy Operations include SJRG's and SJEX's activities. SJE is involved in both retail gas and retail electric activities. Retail Gas and Other Operations include natural gas acquisition and transportation service business lines. Retail Electric Operations consist of electricity acquisition and transportation to commercial and industrial customers. On-Site Energy Production consists of Marina's thermal energy facility and other energy-related projects. Appliance Service Operations includes SJESP's servicing of appliances under warranty via a subcontractor arrangement as well as on a time and materials basis, and the installation of small commercial HVAC systems. The Retail Energy Operations caption includes Retail Gas and Other, Retail Electric, On-Site Energy Production and Appliance Service Operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are treated as if the sales or transfers were to third parties at current market prices.

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

	Three Months Ended March 31,	
	2013	2012
Operating Revenues:		
Gas Utility Operations	\$ 174,098	\$ 179,436
Wholesale Energy Operations	6,216	17,642
Retail Energy Operations:		
Retail Gas and Other Operations	34,113	18,192
Retail Electric Operations	30,729	50,187
On-Site Energy Production	9,096	7,901
Appliance Service Operations	3,308	3,282
Subtotal Retail Energy Operations	77,246	79,562
Corporate & Services	8,480	6,714
Subtotal	266,040	283,354
Intersegment Sales	(10,409	) (8,522
Total Operating Revenues	\$255,631	\$274,832

Table of Contents

	Three Months Ended March 31,	
	2013	2012
Operating Income:		
Gas Utility Operations	\$57,795	\$58,855
Wholesale Energy Operations	(5,157	) 10,672
Retail Energy Operations:		
Retail Gas and Other Operations	28	(152 )
Retail Electric Operations	464	4,944
On-Site Energy Production	(1,173	) (338 )
Appliance Service Operations	(14	) (441 )
Subtotal Retail Energy Operations	(695	) 4,013
Corporate and Services	36	(32 )
Total Operating Income	\$51,979	\$73,508
Depreciation and Amortization:		
Gas Utility Operations	\$11,024	\$10,962
Wholesale Energy Operations	51	53
Retail Energy Operations:		
Retail Gas and Other Operations	22	8
On-Site Energy Production	3,012	2,004
Appliance Service Operations	74	84
Subtotal Retail Energy Operations	3,108	2,096
Corporate and Services	225	164
Total Depreciation and Amortization	\$14,408	\$13,275
Interest Charges:		
Gas Utility Operations	\$2,961	\$4,189
Wholesale Energy Operations	52	86
Retail Energy Operations:		
Retail Gas and Other Operations	76	38
On-Site Energy Production	1,403	1,019
Subtotal Retail Energy Operations	1,479	1,057
Corporate and Services	1,508	721
Subtotal	6,000	6,053
Intersegment Borrowings	(1,292	) (560 )
Total Interest Charges	\$4,708	\$5,493
Income Taxes:		
Gas Utility Operations	\$20,771	\$20,977
Wholesale Energy Operations	(1,981	) 3,981
Retail Energy Operations:		
Retail Gas and Other Operations	272	184
Retail Electric Operations	190	2,020
On-Site Energy Production	(11,564	) (11,174 )
Appliance Service Operations	4	(163 )
Subtotal Retail Energy Operations	(11,098	) (9,133