SOUTH JERSEY INDUSTRIES INC
Form 10-Q/A
April 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended **March 31, 2006**

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 May 1, 2006, there were 29,161,662 shares of the registrant's common stock outstanding.

EXPLANATORY NOTE

This Form 10-Q/A amends the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2006, which was filed on May 10, 2006.

The amendment is a result of the restatement of the Company's condensed consolidated financial statements and related financial information for the quarterly periods ended March 31, 2006 and 2005.

The Company is restating its previously filed financial statements and other financial information for the above referenced periods because management determined that the documentation for selected hedge transactions did not meet the requirements of Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities."

In addition, the Company's previously filed financial statements and other financial information for the quarterly period ended March 31, 2006 is being restated to appropriately reflect costs related to a supply contract that were previously deferred.

See Note 13 to the Condensed Consolidated Financial Statements included in Item 1 - Financial Statements for a more detailed discussion of the restatement.

The Company is also filing amended Quarterly Reports on Form 10-Q for the quarters ended June 30, 2006 and September 30, 2006 to correct the errors described above. Previously filed consolidated financial statements as of and for the years ended December 31, 2005 and 2004 have been restated on the Company's Annual Report on Form 10-K for the year ended December 31, 2006, which was filed on March 1, 2007.

All of the information in this Form 10-Q/A is as of May 10, 2006, the date the Company originally filed its Form 10-Q with the Securities and Exchange Commission, and does not reflect any subsequent information or events other than the restatement discussed in Note 13 to the Condensed Consolidated Financial Statements appearing in this Form 10-Q/A. For the convenience of the reader, this Form 10-Q/A sets forth the originally filed Form 10-Q in its entirety. However, the following items have been amended solely as a result of, and to reflect, the restatement, and no other information in the Form 10-Q/A is amended hereby as a result of the restatement:

Part I, Item 1 - Financial Statements

Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 3 - Quantitative and Qualitative Disclosures About Market Risk of the Company

Part I, Item 4 - Controls and Procedures

Part II, Item 6 - Exhibits

The Company is including currently dated Sarbanes-Oxley Act Section 302 and Section 906 certifications of the Chief Executive Officer and Chief Financial Officer that are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

Except as described above, no other changes have been made to the Form 10-Q. This Form 10-Q/A does not amend or update any other information set forth in the Form 10-Q and we have not updated disclosures contained therein to reflect any events that occurred at a date subsequent to the filing of the Form 10-Q.

SJI - 2

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (restated)— See Pages 4 through 28

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2006 (As Restated See Note 13)	Three Months Ended March 31, 2005 (As Restated See Note 13)
Operating Revenues:		
Utility	$ 269,521	$ 212,167
Nonutility	103,090	116,345
Total Operating Revenues	372,611	328,512
Operating Expenses:		
Cost of Sales - Utility	201,060	141,975
Cost of Sales - Nonutility	83,178	103,141
Operations	17,667	20,197
Maintenance	1,405	1,493
Depreciation	6,342	5,873
Energy and Other Taxes	4,731	5,158
Total Operating Expenses	314,383	277,837
Operating Income	58,228	50,675
Other Income and Expense	149	384
Interest Charges	(6,366)	(5,305)
Income Before Income Taxes	52,011	45,754
Income Taxes	(21,486)	(19,090)
Equity in Affiliated Companies	378	194
Income from Continuing Operations	30,903	26,858
Loss from Discontinued Operations - Net	(166)	(144)
Net Income	$ 30,737	$ 26,714
Basic Earnings Per Common Share:		
Continuing Operations	$ 1.064	$ 0.966
Discontinued Operations - Net	$ (0.006)	$ (0.005)

Basic Earnings Per Common Share	$	1.058	$	0.961
Average Shares of Common Stock Outstanding - Basic		29,032		27,800
Diluted Earnings Per Common Share:				
Continuing Operations	$	1.062	$	0.958
Discontinued Operations - Net	$	(0.006)	$	(0.005)
Diluted Earnings Per Common Share	$	1.056	$	0.953
Average Shares of Common Stock Outstanding - Diluted		29,100		28,024
Dividends Declared per Common Share	$	0.2250	$	0.2125

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 March 31, 2006 (As Restated See Note 13)	Three Months Ended March 31, 2005 (As Restated See Note 13)
Net Income	$ 30,737	$ 26,714
Other Comprehensive Income (Loss), Net of Tax:*		
Change in Fair Value of Investments	157	(43)
Change in Fair Value of Derivatives - Other	1,224	385
Other Comprehensive Income - Net of Tax*	1,381	342
Comprehensive Income	$ 32,118	$ 27,056

* Determined using a combined statutory tax rate of 40.85%.

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)

	Three Months Ended March 31, 2006 (As Restated See Note 13)		Three Months Ended March 31, 2005 (As Restated See Note 13)	
Cash Flows from Operating Activities:				
Income from Continuing Operations	$	30,903	$	26,858
Adjustments to Reconcile Net Income from Continuing Operations to Net Cash Flows Provided by Operating Activities:				
Depreciation and Amortization		6,913		6,585
Unrealized Gain on Derivatives - Energy Related		(9,531)		(4,070)
Provision for Losses on Accounts Receivable		1,045		2,313
Stock-Based Compensation Charge		278		368
Revenues and Fuel Costs Deferred - Net		15,606		442
Deferred and Noncurrent Income Taxes and Credits - Net		5,077		5,471
Environmental Remediation Costs - Net		(958)		(363)
Gas Plant Cost of Removal		(304)		(165)
Changes in:				
Accounts Receivable		(11,972)		(33,592)
Inventories		48,913		64,612
Other Prepayments and Current Assets		525		(13)
Prepaid and Accrued Taxes - Net		23,220		22,045
Accounts Payable and Other Accrued Liabilities		(67,880)		(7,542)
Other Assets		(10,120)		4,308
Other Liabilities		11,699		848
Discontinued Operations		104		(155)
Net Cash Provided by Operating Activities		43,518		87,950
Cash Flows from Investing Activities:				
(Loan to) Repayment of Loan to Affiliate		(50)		195
Net (Purchase of) Proceeds from Sale of Restricted Investments		(8,495)		13,379
Capital Expenditures		(20,410)		(19,933)
Net Cash Used in Investing Activities		(28,955)		(6,359)
Cash Flows from Financing Activities:				
Net Repayments of Lines of Credit		(25,200)		(59,900)

Proceeds from Issuance of Long-Term Debt		16,400		-
Principal Repayments of Long-Term Debt		(38)		(10,500)
Proceeds from Sale of Common Stock		950		735
Payments for Issuance of Long-Term Debt		(353)		(51)
Premium for Early Retirement of Long-Term Debt		-		(184)
Net Cash Used in Financing Activities		(8,241)		(69,900)
Net Increase in Cash and Cash Equivalents		6,322		11,691
Cash and Cash Equivalents at Beginning of Period		4,884		5,272
Cash and Cash Equivalents at End of Period	$	11,206	$	16,963
Supplemental Disclosures of Non-Cash Investing Activities:				
Capital Expenditures acquired on account but unpaid as of March 31	$	5,976	$	2,702

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)

Assets	March 31, 2006 (As Restated See Note 13)	December 31, 2005
Property, Plant and Equipment:		
Utility Plant, at original cost	$ 1,042,046	$ 1,030,028
Accumulated Depreciation	(245,811)	(241,242)
Nonutility Property and Equipment, at cost	97,688	94,623
Accumulated Depreciation	(6,574)	(6,061)
Property, Plant and Equipment - Net	887,349	877,348
Investments:		
Available-for-Sale Securities	5,907	5,642
Restricted	16,729	8,234
Investment in Affiliates	2,472	2,094
Total Investments	25,108	15,970
Current Assets:		
Cash and Cash Equivalents	11,206	4,884
Accounts Receivable	166,720	138,139
Unbilled Revenues	41,930	59,066
Provision for Uncollectibles	(6,389)	(5,871)
Natural Gas in Storage, average cost	68,945	117,542
Materials and Supplies, average cost	4,442	4,758
Deferred Income Taxes - Net	-	624
Prepaid Taxes	1,490	13,061
Derivatives - Energy Related Assets	21,953	24,408
Other Prepayments and Current Assets	4,887	5,415
Total Current Assets	315,184	362,026
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	122,885	122,486
Prepaid Pension	29,283	30,075
Derivatives - Energy Related Assets	5,311	5,080
Derivatives - Other	1,567	-
Unamortized Debt Issuance Costs	7,376	7,147
Contract Receivables	14,473	14,766
Other	6,604	6,814

Total Regulatory and Other Noncurrent Assets		187,499		186,368
Total Assets	$	1,415,140	$	1,441,712

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)

Capitalization and Liabilities		March 31, 2006 (As Restated See Note 13)		December 31, 2005
Common Equity:				
Common Stock	$	36,396	$	36,228
Premium on Common Stock		233,205		231,861
Accumulated Other Comprehensive Loss		(3,064)		(4,445)
Retained Earnings		154,187		130,001
Total Common Equity		420,724		393,645
Long-Term Debt		335,428		319,066
Total Capitalization		756,152		712,711
Minority Interest		435		394
Current Liabilities:				
Notes Payable		122,100		147,300
Current Maturities of Long-Term Debt		2,364		2,364
Accounts Payable		103,946		179,023
Customer Deposits		14,208		12,534
Environmental Remediation Costs		20,774		18,165
Taxes Accrued		19,022		7,456
Derivatives - Energy Related Liabilities		28,603		21,957
Deferred Income Taxes - Net		3,697		-
Deferred Contract Revenues		4,139		5,077
Dividends Payable		6,551		-
Interest Accrued		4,920		6,258
Other Current Liabilities		9,552		6,077
Total Current Liabilities		339,876		406,211
Deferred Credits and Other Noncurrent Liabilities:				
Deferred Income Taxes - Net		171,324		169,423
Investment Tax Credits		2,714		2,795
Pension and Other Postretirement Benefits		18,561		18,942
Asset Retirement Obligations		22,934		22,588
Environmental Remediation Costs		37,345		42,489
Derivatives - Energy Related Liabilities		3,746		4,895

Derivatives - Other		-		-
Regulatory Liabilities		55,437		54,002
Other		6,616		7,262
Total Deferred Credits and Other Noncurrent Liabilities		318,677		322,396
Commitments and Contingencies (Note 11)				
Total Capitalization and Liabilities	$	1,415,140	$	1,441,712

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CONSOLIDATION — The condensed consolidated financial statements include the accounts of South Jersey Industries, Inc. (SJI), its wholly owned subsidiaries and subsidiaries in which we have a controlling interest. We eliminate all significant intercompany accounts and transactions. In our 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. Our 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. These financial statements should be read in conjunction with SJI’s 2005 Form 10-K and annual report and 2006 Form 10-K which includes restated amounts for 2005 (See Note 13).

EQUITY INVESTMENTS — We classify marketable equity investments purchased as long-term investments as Available-for-Sale Securities on our condensed consolidated balance sheets and carry them at their fair value. Any unrealized gains or losses are included in Accumulated Other Comprehensive Loss. SJI, either directly or through its wholly owned subsidiaries, currently holds a 50% non-controlling interest in two affiliated companies and accounts for the investments under the equity method. We include the operations of these affiliated companies on a pre-tax basis in the statements of condensed consolidated income under Equity in Affiliated Companies.

ESTIMATES AND ASSUMPTIONS — We prepare our condensed consolidated financial statements to conform with accounting principles generally accepted in the United States of America. Management makes estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related disclosures. Therefore, actual results could differ from those estimates. Significant estimates include amounts related to regulatory accounting, energy derivatives, environmental remediation costs, pension and other postretirement benefit costs, and revenue recognition.

REGULATION — South Jersey Gas Company (SJG) is subject to the rules and regulations of the New Jersey Board of Public Utilities (BPU). SJG maintains its accounts according to the BPU's prescribed Uniform System of Accounts. SJG follows the accounting for regulated enterprises prescribed by the Financial Accounting Standards Board (FASB) Statement No. 71, “Accounting for the Effects of Certain Types of Regulation.” In general, Statement No. 71 allows deferral of certain costs and creation of certain obligations when it is probable that these items will be recovered from or refunded to customers in future periods.

REVENUES — Gas and electric revenues are recognized in the period the commodity is delivered and customers are billed monthly. For SJG and South Jersey Energy (SJE) retail customers not billed at the end of each month, we record an estimate to recognize unbilled revenues for gas and electricity delivered from the date of the last meter reading to the end of the month. South Jersey Resources Group’s (SJRG) gas revenues are recognized in the period the commodity is delivered and customers are billed monthly. We defer and recognize revenues related to South Jersey Energy Service Plus, LLC (SJESP) appliance service contracts seasonally over the full 12-month terms of the contracts. Revenue related to services provided on a time and materials basis is recognized on a monthly basis as the jobs are completed. Marina Energy LLC (Marina) recognizes revenue on a monthly basis as services are provided and for on-site energy production that is delivered to its customers.

The BPU allows SJG to recover all prudently incurred gas costs through the Basic Gas Supply Service (BGSS) clause. SJG collects these costs on a forecasted basis upon BPU order. SJG defers over/under-recoveries of gas costs and includes them in the following year's BGSS. SJG pays interest on the net overcollected BGSS balances at the rate of return on rate base utilized by the BPU to set rates in its last base rate proceeding.

SJI - 9

SJG's tariff also includes a Temperature Adjustment Clause (TAC), a Remediation Adjustment Clause (RAC), a New Jersey Clean Energy Program (NJCEP) and a Universal Service Fund (USF) program. The TAC provides stability to SJG's earnings and its customers' bills by normalizing the impact of extreme winter temperatures. The RAC recovers environmental remediation costs of former gas manufacturing plants and the NJCEP recovers costs associated with our energy efficiency and renewable energy programs. The USF is a statewide customer assistance program that utilizes utilities as a collection agent. TAC adjustments affect revenue, earnings and cash flows since colder-than-normal weather can generate credits to customers, while warmer-than-normal weather can result in additional billings. RAC adjustments do not directly affect earnings because SJG defers and recovers related costs through rates over 7-year amortization periods. NJCEP and USF adjustments are also deferred and do not affect earnings, as related costs and customer credits are recovered through rates on an ongoing basis.

ACCOUNTS RECEIVABLE AND PROVISION FOR UNCOLLECTIBLE ACCOUNTS — Accounts receivable are carried at the amount owed by customers. A provision for uncollectible accounts is established based on our collection experience and an assessment of the collectibility of specific accounts.

PROPERTY, PLANT AND EQUIPMENT — For regulatory purposes, utility plant is stated at original cost, which may be different than SJG's cost if the assets were acquired from another regulated entity. Nonutility plant is stated at cost. The cost of adding, replacing and renewing property is charged to the appropriate plant account.

DEPRECIATION — SJG depreciates utility plant on a straight-line basis over the estimated remaining lives of the various property classes. These estimates are periodically reviewed and adjusted as required after BPU approval. The composite annual rate for all depreciable utility property was approximately 2.4% in 2005. Except for retirements outside the normal course of business, accumulated depreciation is charged with the cost of depreciable utility property retired, less salvage. Nonutility property depreciation is computed on a straight-line basis over the estimated useful lives of the property, ranging up to 50 years. Gain or loss on the disposition of nonutility property is recognized in net income.

CAPITALIZED INTEREST — SJG capitalizes interest on construction at the rate of return on rate base utilized by the BPU to set rates in its last base rate proceeding. SJG capitalized interest of $0.1 million and $0.3 million in the three months ended March 31, 2006 and 2005, respectively. Marina also capitalized interest of $0.3 million during the construction of its thermal energy facility expansion and landfill gas project in the three months ended March 31, 2006 based on the actual cost of borrowed funds. Marina did not capitalize any interest during the three months ended March 31, 2005. 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.

IMPAIRMENT OF LONG-LIVED ASSETS — We review the carrying amount of long-lived assets for possible impairment whenever events or changes in circumstances indicate that such amounts may not be recoverable. For the three months ended March 31, 2006 and the year ended December 31, 2005, no significant impairments were identified.

DERIVATIVE INSTRUMENTS (RESTATED)— Certain SJI subsidiaries are involved in buying, selling, transporting and storing natural gas and buying and selling retail electricity for their own accounts as well as managing these activities for other third parties. These subsidiaries are subject to market risk due to commodity price fluctuations. To manage this risk, our companies enter into a variety of physical and financial transactions including forward contracts, swap agreements, options contracts and futures contracts.

SJI structured its subsidiaries so that SJG and SJE transact commodities on a physical basis and typically do not directly enter into positions that financially settle. SJRG performs this risk management function for these entities and enters into the types of financial transactions noted above. As part of its gas purchasing strategy, SJG occasionally uses financial contracts to hedge against forward price risk. The costs or benefits of these short-term contracts are included in SJG's BGSS, subject to BPU approval. As of March 31, 2006 and December 31, 2005, SJG had $12.2 million and $(0.5) million of costs (benefits), respectively, included in its BGSS related to open financial contracts (See Regulatory Assets & Liabilities).

Management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in identifying, assessing and controlling various risks. Management reviews any open positions in accordance with strict policies to limit exposure to market risk.

SJI accounts for derivative instruments in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. We record all derivatives, whether designated in hedging relationships or not, on the condensed consolidated balance sheets at fair value unless the derivative contracts qualify for the normal purchase and sale exemption. In general, if the derivative is designated as a fair value hedge, we recognize the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk in earnings. We currently have no fair value hedges. If the derivative is designated as a cash flow hedge, we record the effective portion of the hedge in Accumulated Other Comprehensive Loss and recognize it in the income statement when the hedged item affects earnings. However, due to the application of regulatory accounting principles under FASB Statement No. 71, derivatives related to SJG's gas purchases are recorded through the BGSS. We recognize ineffective portions of cash flow hedges immediately in earnings. We currently have no energy-related derivative instruments designated as cash flow hedges. We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives, strategies for undertaking various hedge transactions and our methods for assessing and testing correlation and hedge ineffectiveness. All hedging instruments are linked to the hedged asset, liability, firm commitment or forecasted transaction.

We also assess whether these derivatives are highly effective in offsetting changes in cash flows or fair values of the hedged items. We discontinue hedge accounting prospectively if we decide: to discontinue the hedging relationship; determine that the anticipated transaction is no longer likely to occur; or, if we determine that a derivative is no longer highly effective as a hedge. In the event that hedge accounting is discontinued, we will continue to carry the derivative on the balance sheet at its current fair value and recognize subsequent changes in fair value in current period earnings. Unrealized gains and losses on the discontinued hedges that were previously included in Accumulated Other Comprehensive Loss will be reclassified into earnings when the forecasted transaction occurs, or when it is probable that it will not occur.

SJRG 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. SJI measures the fair value of the contracts and records these as Derivatives — Energy Related Assets or Derivatives — Energy Related Liabilities on our condensed consolidated balance sheets. For those derivatives not designated as hedges, we recorded the net pre-tax gain of $9.5 million, and $4.1 million in earnings during the three months ended March 31, 2006 and 2005, respectively, which are included with realized gains and losses in Operating Revenues — Nonutility.

SJI presents revenues and expenses related to its energy trading activities on a net basis in Operating Revenues — Nonutility in our condensed consolidated statements of income consistent with Emerging Issues Task Force (EITF) Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." There is no effect on operating income or net income from the above presentation.

From time to time we enter into interest rate derivatives and similar agreements to hedge exposure to increasing interest rates with respect to our variable-rate debt. We have designated and account for these interest rate derivatives as cash flow hedges. As of March 31, 2006, SJI's active interest rate swaps were as follows:

Amount		Fixed Interest Rate	Start Date	Maturity	Type	Amortization
$ 6,000,000	*	4.550%	11/19/2001	12/01/2007	Taxable	Yes
$ 3,900,000		4.795%	12/01/2004	12/01/2014	Taxable	No
$ 8,000,000		4.775%	11/12/2004	11/12/2014	Taxable	No
$ 20,000,000		4.080%	11/19/2001	12/01/2011	Tax-exempt	No
$ 14,500,000		3.905%	03/17/2006	01/15/2026	Tax-exempt	No
$ 500,000		3.905%	03/17/2006	01/15/2026	Tax-exempt	No
$ 330,000		3.905%	03/17/2006	01/15/2026	Tax-exempt	No
$ 12,500,000	**	3.430%	12/01/2006	02/01/2036	Tax-exempt	No
$ 12,500,000	**	3.430%	12/01/2006	02/01/2036	Tax-exempt	No
$ 7,100,000		4.895%	02/01/2006	02/01/2016	Taxable	No

* Amount reduced to $6.0 million on 12/01/05, and further reduces to $3.0 million on 12/01/06.
** SJG entered into these forward-starting swaps in anticipation of the issuance of $25.0 million of auction-rate bonds that were issued in April 2006.

On February 1, 2006, we entered into an interest rate swap contract against Marina's taxable Series B variable-rate bonds for a 10-year period. The swap effectively provides us with a fixed interest rate of 4.895% on $7.1 million of the bonds.

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 March 31, 2006 and December 31, 2005, the market values of these swaps were $1.6 million and $(0.5) million, respectively, which represent the amounts we would receive from (have to pay to) the counterparty to terminate these contracts as of those dates. We include these balances on the condensed consolidated balance sheets under Derivatives — Other. As of March 31, 2006 and December 31, 2005, we determined that the swaps were highly effective; therefore, we recorded the changes in fair value of the swaps along with the cumulative unamortized costs, net of taxes, in Accumulated Other Comprehensive Loss.

We determined the fair value of derivative instruments by reference to quoted market prices of listed contracts, published quotations or quotations from unrelated third parties.

STOCK COMPENSATION — SJI, under the Amended and Restated 1997 Stock-Based Compensation Plan, grants restricted shares. The restricted shares vest over a 3-year period and are subject to SJI achieving certain performance targets as compared to a peer group average. The actual amount of shares that are ultimately awarded is dependent upon the final peer group average and may range from between 0% to 150% of the original share units granted. A description of the accounting for the restricted shares is included in New Accounting Pronouncements herein.

NEW ACCOUNTING PRONOUNCEMENTS — In November 2004, the FASB issued Statement No. 151, “Inventory Costs.” This statement requires that abnormal amounts of idle facility expense, freight, handling costs and spoilage be charged to income as a current period expense rather than capitalized as inventory costs. The effective date of this statement was January 1, 2006. The adoption of this statement had no effect on SJI’s condensed consolidated financial statements.

On January 1, 2006, SJI adopted FASB Statement No. 123(R), “Share-Based Payment”, which revised FASB Statement No. 123, and superseded Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees”. Statement No. 123(R) requires SJI to measure and recognize stock-based compensation expense in its financial statements based on the fair value at the date of grant for its share-based awards, which currently include restricted stock awards containing market and service conditions. In accordance with Statement No. 123(R), SJI is recognizing compensation expense over the requisite service period for: (i) awards granted on, or after, January 1, 2006 and (ii) unvested awards previously granted and outstanding as of January 1, 2006. In addition, SJI is estimating forfeitures over the requisite service period when recognizing compensation expense. These estimates can be adjusted to the extent to which actual forfeitures differ, or are expected to materially differ, from such estimates.

As permitted by Statement No. 123(R), SJI chose the modified prospective method of adoption; accordingly, financial results for the prior period presented were not retroactively adjusted to reflect the effects of this Statement. Under the modified prospective application, this Statement applies to new awards and to awards modified, repurchased, or cancelled after the required effective date. Compensation costs for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered based on the grant-date fair value.

The Company measures compensation expense related to restricted stock awards based on the fair value of the awards at their date of grant. Compensation expense is recognized on a straight-line basis over the requisite three-year service period for awards that ultimately vest, and is not adjusted based on the actual achievement of performance goals. The Company estimated the fair value of officers’ restricted stock awards on the date of grant using a Monte Carlo simulation model.

The following table summarizes the nonvested restricted stock awards outstanding at March 31, 2006 and the assumptions used to estimate the fair value of the awards (adjusted for the June 2005 two-for-one stock split):

	Grant Date	Shares Granted	Fair Value Per Share	Expected Volatility	Risk-Free Interest Rate
Officers -	Jan. 2004	43,798	$ 20.105	16.4%	2.4%
	Jan. 2005	38,316	$ 25.155	15.5%	3.4%
	Jan. 2006	42,983	$ 27.950	16.9%	4.5%
Directors -	Dec. 2003	4,560	$ 19.738	-	-
	Dec. 2004	5,220	$ 24.955	-	-
	Dec. 2005	6,340	$ 29.970	-	-

Expected volatility is based on the actual daily volatility of SJI's share price over the preceding 3-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' 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, which 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 cost of the officers' restricted stock awards was $0.2 million and $0.3 million for the three months ended March 31, 2006 and 2005, respectively. Of those costs, $20,000 and $89,000 were capitalized to Utility Plant for the three months ended March 31, 2006 and 2005, respectively. The cost of the directors' restricted stock awards was $32,900 and $21,900, for the three months ended March 31, 2006 and 2005, respectively.

As of March 31, 2006, there was $1.9 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 2.2 years.

Prior to the adoption of Statement No. 123 (R), SJI applied Statement No. 123, as amended, which permitted the application of APB No. 25. In accordance with APB No. 25, SJI recorded compensation expense over the requisite service period for restricted stock based on the probable number of shares expected to be issued and the market value of the Company’s common stock at the end of each reporting period. As a result of SJI’s previous accounting treatment, there have been no excess tax benefits recognized since the inception of the Plans.