AQUA AMERICA INC
Form 3
February 22, 2007

FORM 3

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

OMB APPROVAL	
OMB Number:	3235-0104
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person [*]
Â Franklin Chris
(Last) (First) (Middle)
762 W LANCASTER AVE.
(Street)
BRYN MAWR,Â PAÂ 19010
(City) (State) (Zip)

2. Date of Event Requiring Statement
(Month/Day/Year)
02/22/2007

3. Issuer Name **and** Ticker or Trading Symbol
AQUA AMERICA INC [WTR]

4. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Aqua America Southern Oper

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock	7,491	D	Â
COMMON STOCK 401K	4,832.44	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)	4. Conversion or Exercise Price of Derivative	5. Ownership Form of Derivative Security:	6. Nature of Indirect Beneficial Ownership (Instr. 5)

	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	Security	Direct (D) or Indirect (I) (Instr. 5)	
Stock Options (Right to buy)	03/01/2000	03/01/2009	Common Stock	3,249	$ 8.22	D	Â
Stock Options (Right to buy)	03/06/2002	03/06/2011	Common Stock	10,416	$ 11.46	D	Â
Stock Options (Right to buy)	03/03/2004	03/03/2013	Common Stock	13,331	$ 12.483	D	Â
Stock Options (Right to buy)	06/17/2003	06/17/2012	Common Stock	11,666	$ 12.4875	D	Â
Stock Options (Right to buy)	03/01/2005	03/01/2014	Common Stock	13,333	$ 16.1475	D	Â
Stock Options (Right to buy)	02/28/2006	02/28/2015	Common Stock	13,332	$ 18.3338	D	Â
Stock Options (Right to buy)	03/07/2007	03/07/2016	Common Stock	10,000	$ 29.46	D	Â

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Franklin Chris 762 W LANCASTER AVE. BRYN MAWR,Â PAÂ 19010	Â	Â	Â Aqua America Southern Oper	Â

Signatures

Brian Dingerdissen	02/22/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ; FONT-FAMILY: Times New Roman">, relates to estimated future expenditures determined under the guidance of FASB Statement No. 5, "Accounting for Contingencies." We recorded this amount, which relates to former manufactured gas plant sites, as a regulatory asset under Statement No. 71 with the corresponding amounts reflected on the consolidated balance sheets under Current Liabilities and Deferred Credits and Other Noncurrent Liabilities. The BPU's intent, evidenced by current practice, is to allow SJG to recover the deferred costs over 7-year periods after they are spent. As of June 30, 2006, we reflected SJG's unamortized expended remediation costs of $12.9 million on the consolidated balance sheet under Regulatory Assets. Since implementing the RAC in 1992, SJG has recovered $45.8 million through rates.

SJI - 25

Explanation of Responses:

With Morie's sale, EMI assumed responsibility for environmental liabilities estimated between $2.8 million and $8.8 million. The information available on these sites is sufficient only to establish a range of probable liability and no point within the range is more likely than any other. Therefore, EMI has accrued the lower end of the range. Changes in the accrual are included in the statements of consolidated income under Loss from Discontinued Operations — Net.

SJI and SJF estimated their potential exposure for the future remediation of four sites where fuel oil operations existed years ago. Estimates for these sites range from $1.2 million to $4.9 million. We recorded the lower end of this range on the 2006 consolidated balance sheet under Current Liabilities and Deferred Credits and Other Noncurrent Liabilities as of June 30, 2006.

12. RESTATEMENT OF FINANCIAL INFORMATION:

In February 2007, and subsequent to the issuance of the Company’s financial statements for the three and six months ended June 30, 2006, management and the audit committee determined that its documentation for selected hedge transactions did not meet the requirements of paragraph 28 of Statement of Financial Accounting Standards No. 133 “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”) which states that the forecasted transaction being hedged should be described with sufficient specificity so that when the transaction occurs, it is clear whether that transaction is or is not the hedged transaction. The documentation of these hedges did not contain sufficient specificity. Consequently, these hedges do not qualify for hedge accounting treatment.

In addition, management expected certain costs related to a supply contract to be reimbursed by the customer during the year. However, collection of these amounts was not assured and therefore $0.4 million and $1.5 million of these costs ($0.2 million and $0.9 million on an after-tax basis) that were previously deferred, should have been recognized in the three and six months ended June 30, 2006.

As a result, we are restating herein our condensed consolidated financial statements as of June 30, 2006 and for the three and six months ended June 30, 2006 and 2005 to correct these accounting errors.

Prior to the restatement, changes in fair value of derivative instruments that were designated as cash flow hedges of forecasted purchases and sales of natural gas were recorded in Accumulated Other Comprehensive Loss or in Natural Gas in Storage until the forecasted transaction was recognized in earnings. Subsequent to the restatement, those changes in fair value of derivative instruments previously designated as cash flow hedges are now recorded in the Company’s statements of consolidated income.

During the third quarter of 2006 and subsequent to the issuance of the Company’s financial statements for the six months ended June 30, 2006, the Company determined that $6.6 million and $6.2 million of declared dividends for the six months ended June 30, 2006 and 2005 respectively, were included in Dividends on Common Stock within financing activities on the Condensed Consolidated Statements of Cash Flows rather than a decrease in the Changes in Accounts Payable and Other Accrued Liabilities within operating activities. The Company did not consider the impact of these amounts to be material to the overall presentation of the consolidated financial statements. This adjustment is reflected in the Restated amounts seen below for the six months ended June 30, 2006 and 2005.

Also during the third quarter of 2006, and subsequent to the issuance of the Company's financial statements as of June 30, 2006, the Company determined that $9.1 million to be collected under the Temperature Adjustment Clause were included in Accounts Receivable rather than Regulatory Assets on the Consolidated Balance Sheets. The Company did not consider the impact of these amounts to be material to the overall presentation of the consolidated financial statements as of June 30, 2006. This adjustment is reflected in the Restated amounts seen below.

SJI - 26

EFFECTS OF RESTATEMENT — The following tables set forth the effects of the restatement on affected line items within our previously reported financial statements:

	Three Months Ended June 30, 2006		Three Months Ended June 30, 2005	
Consolidated Statements of Income	**As Previously Reported**	**As Restated**	**As Previously Reported**	**As Restated**
Nonutility Revenue	60,425	58,662	69,280	63,756
Total Operating Revenues	155,532	153,769	154,039	148,515
Cost of Sales - Nonutility	47,484	47,907	53,787	53,786
Total Operating Expenses	138,019	138,442	136,631	136,630
Operating Income	17,513	15,327	17,408	11,885
Income Before Income Taxes	11,942	9,756	12,431	6,908
Income Taxes	(5,044)	(4,146)	(5,091)	(2,822)
Income from Continuing Operations	7,229	5,941	7,555	4,301
Net Income	7,166	5,878	7,373	4,119
Basic Earnings per Common Share - Continuing Operations	0.248	0.204	0.270	0.154
Basic Earnings per Common Share	0.246	0.202	0.264	0.148
Diluted Earnings per Common Share - Continuing Operations	0.247	0.203	0.268	0.153
Diluted Earnings per Common Share	0.245	0.201	0.262	0.147

	Six Months Ended June 30, 2006		Six Months Ended June 30, 2005	
Consolidated Statements of Income	**As Previously Reported**	**As Restated**	**As Previously Reported**	**As Restated**
Nonutility Revenue	155,880	161,753	185,683	180,101
Total Operating Revenues	520,508	526,381	482,609	477,027
Cost of Sales - Nonutility	129,540	131,085	160,255	160,255
Total Operating Expenses	451,280	452,825	414,467	414,467
Operating Income	69,228	73,556	68,141	62,560
Income Before Income Taxes	57,439	61,767	58,243	52,662
Income Taxes	(23,854)	(25,632)	(24,205)	(21,912)
Income from Continuing Operations	34,295	36,845	34,447	31,159
Net Income	34,066	36,616	34,121	30,833
Basic Earnings per Common Share - Continuing Operations	1.179	1.266	1.236	1.118
Basic Earnings per Common Share	1.171	1.258	1.224	1.106
Diluted Earnings per Common Share - Continuing Operations	1.176	1.263	1.226	1.109
Diluted Earnings per Common Share	1.168	1.255	1.214	1.097

Consolidated Statements of Comprehensive Income	Three Months Ended June 30, 2006 As Previously Reported	Three Months Ended June 30, 2006 As Restated	Three Months Ended June 30, 2005 As Previously Reported	Three Months Ended June 30, 2005 As Restated
Net Income	7,166	5,878	7,373	4,119
Change in Fair Value of Derivatives - Energy Related	(832)	-	(4,538)	-
Other Comprehensive Income (Loss) - Net of Tax	(20)	812	(5,688)	(1,150)
Comprehensive Income	7,146	6,690	1,685	2,969

Consolidated Statements of Comprehensive Income	Six Months Ended June 30, 2006 As Previously Reported	Six Months Ended June 30, 2006 As Restated	Six Months Ended June 30, 2005 As Previously Reported	Six Months Ended June 30, 2005 As Restated
Net Income	34,066	36,616	34,121	30,833
Change in Fair Value of Derivatives - Energy Related	3,665	-	(4,581)	-
Other Comprehensive Income (Loss) - Net of Tax	5,858	2,193	(5,389)	(808)
Comprehensive Income	39,924	38,809	28,732	30,025

Consolidated Statements of Cash Flows	Six Months Ended June 30, 2006 As Previously Reported	Six Months Ended June 30, 2006 As Restated	Six Months Ended June 30, 2005 As Previously Reported	Six Months Ended June 30, 2005 As Restated
Income from Continuing Operations	34,295	36,845	34,447	31,159
Unrealized Gain on Derivatives - Energy Related	(3,761)	(9,984)	(2,117)	5,659
Deferred and Noncurrent Income Taxes and Credits - Net	258	2,815	6,208	3,013
Accounts Receivable	78,259	87,509	49,594	49,594
Inventories	4,243	4,593	9,988	7,794
Prepaid and Accrued Taxes - Net	(5,529)	(6,308)	(1,972)	(1,071)
Accounts Payable and Other Accrued Liabilities	(90,114)	(96,256)	(24,682)	(30,888)
Other Assets	(1,008)	(9,136)	6,858	6,858
Net Cash Provided by Operating Activities	41,740	35,175	86,708	80,502
Dividends on Common Stock	(13,116)	(6,551)	(12,127)	(5,921)
Net Cash Provided by (Used in) Financing Activities	24,499	31,064	(60,981)	(54,775)

SJI - 27

Consolidated Balance Sheets	June 30, 2006 As Previously Reported	As Restated
Accounts Receivable	106,357	96,104
Natural Gas in Storage, average cost	128,492	128,142
Total Current Assets	295,753	285,150
Regulatory Assets	119,382	128,513
Total Regulatory and Noncurrent Assets	188,281	197,412
Total Assets	1,425,389	1,423,917
Accumulated Other Comprehensive (Loss) Income	(2,942)	(2,252)
Retained Earnings	155,306	153,500
Total Common Equity	423,774	422,658
Total Capitalization	781,907	780,791
Accounts Payable	74,811	75,234
Taxes Accrued	6,725	5,946
Total Current Liabilities	327,035	326,679
Total Capitalization and Liabilities	1,425,389	1,423,917

SJI - 28

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited)

RESTATEMENT — As discussed in Note 12 to the consolidated financial statements, the Company's financial statements as of June 30, 2006 and for the three and six months ended June 30, 2006 and 2005 have been restated. The accompanying management's discussion and analysis gives effect to that restatement.

Overview— South Jersey Industries, Inc. (SJI) is an energy services holding company that provides a variety of products and services through the following wholly owned subsidiaries:

South Jersey Gas Company (SJG) is a regulated natural gas utility. SJG distributed natural gas in the seven southernmost counties of New Jersey to 325,169 customers at June 30, 2006, compared with 316,426 customers at June 30, 2005. SJG also:
• sells natural gas and pipeline transportation capacity (off-system sales) on a wholesale basis to various customers on the interstate pipeline system; and
• transports natural gas purchased directly from producers or suppliers for its own sales and for some of its customers.

SJI Services, LLC (SJIS) was established January 1, 2006, for the purpose of providing services to SJI and its other subsidiaries such as information technology, human resources, government relations, corporate communications, materials purchasing, fleet management and insurance.

South Jersey Energy Solutions, LLC (SJES) was established January 1, 2006 as a direct subsidiary for the purpose of serving as a holding company for all of SJI’s nonutility businesses. The following businesses are wholly owned subsidiaries of SJES:

1) 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. SJE also marketed an air quality monitoring system through AirLogics, LLC (AirLogics). SJE and GZA GeoEnvironmental, Inc. (GZA), an environmental consulting firm, each had a 50% equity interest in AirLogics. On June 30, 2006, SJE sold its entire interest in AirLogics to GZA.

2) South Jersey Resources Group, LLC (SJRG) markets wholesale natural gas storage, commodity and transportation in the mid-Atlantic and southern states. SJRG also conducts price-risk management activities for itself, SJG and SJE by entering into a variety of physical and financial transactions including forward contracts, swap agreements, option contracts and futures contracts.

3) Marina Energy LLC (Marina) develops and operates energy-related projects. Marina's largest project provides cooling, heating and hot water to the Borgata Hotel Casino & Spa in Atlantic City. Marina’s most recent projects include two landfill gas-fired electricity production facilities. Marina owns a 51% equity interest in AC Landfill Energy, LLC (ACLE). ACLE was formed with DCO Energy, LLC to develop and install a 1,600-kilowatt methane-to-electric power generation system at a county-owned landfill in Egg Harbor Township, NJ. Commercial operation of the initial system began in March 2005. An additional 1,900-kilowatt system is under construction at the site and is expected to be operational in the third quarter of 2006. Marina also owns a 51% equity interest in WC Landfill Energy, LLC (WCLE). WCLE was formed with DCO to develop and install a 3,800-kilowatt methane-to-electric power generation system at a county-owned landfill in White Township, NJ. Commercial operation of the plant is targeted to begin in the fall of 2006.

4) South Jersey Energy Service Plus, LLC (SJESP) installs residential and small commercial HVAC systems, provides plumbing services and services appliances via the sale of appliance service programs as well as on a time and materials basis in southern New Jersey.

SJES also has a joint venture investment with Conectiv Solutions, LLC in Millennium Account Services, LLC (Millennium). Millennium provides meter reading services to SJG and Atlantic City Electric Company in southern New Jersey.

SJI - 29

<u>Forward-Looking Statements and Risk Factors</u>— Certain statements contained in this Quarterly Report may qualify as “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this Report should be considered forward-looking statements made in good faith and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Words such as “anticipate”, “believe”, “expect”, “estimate”, “forecast”, “goal”, “intend”, “objective”, “plan”, “project”, “seek”, “strategy” and similar expressions a identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. These risks and uncertainties include, but are not limited to, the following: general economic conditions on an international, national, state and local level; weather conditions in our marketing areas; changes in commodity costs; changes in the availability of natural gas; “non-routine” or “extraordinary” disruptions in our distribution system; regulatory, legislative and court decisions; competition; the availability and cost of capital; costs and effects of legal proceedings and environmental liabilities; the failure of customers or suppliers to fulfill their contractual obligations; and changes in business strategies.

A discussion of these and other risks and uncertainties may be found in the Company’s Form 10-K and Annual Report for the year ended December 31, 2005 and in other filings made by us with the Securities and Exchange Commission. These cautionary statements should not be construed by you to be exhaustive and they are made only as of the date of this Quarterly Report on Form 10-Q, or in any document incorporated by reference, at the date of such document. While SJI believes these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. Further, SJI undertakes no obligation to update or revise any of its forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES —

<u>Estimates and Assumptions</u>— As described in the notes to our consolidated financial statements, management must make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. Actual results could differ from those estimates. Five types of transactions presented in our consolidated financial statements require a significant amount of judgment and estimation. These relate to regulatory accounting, energy derivatives, environmental remediation costs, pension and other postretirement employee benefit costs, and revenue recognition. A discussion of these estimates and assumptions may be found in our Form 10-K for the year ended December 31, 2005.

<u>New Accounting Pronouncements</u>— See detailed discussions concerning New Accounting Pronouncements and their impact on SJI in Note 1 to the consolidated financial statements.

<u>Temperature Adjustment Clause</u>— The BPU-approved Temperature Adjustment Clause (TAC) is designed to mitigate the effect of variations in heating season temperatures from historical norms. While SJG records the revenue and earnings impacts of TAC adjustments as incurred, cash inflows or outflows directly attributable to TAC adjustments generally do not begin until the next clause year. Each TAC year begins October 1 and ends May 31 of the subsequent year. The TAC increased (decreased) SJG’s net income by $1.3 million and $0.7million for the three months and $4.9 million and $(0.1) million for the six months ended June 30, 2006 and 2005, respectively. Weather during the second quarter of 2006 was 31.6% warmer than the same period last year, and 27.0% warmer than the 20-year TAC average. Weather during the first six months of 2006 was 18.8% warmer than the same period last year, and 13.9% warmer than the 20-year TAC average. Due to significantly warmer weather during the 2005-2006 winter season, the deferred amount due from the ratepayers as of June 30, 2006 for TAC adjustments was $9.1 million as compared to $1.1 million as of June 30, 2005.

Regulatory Actions — See detailed discussion concerning Regulatory Actions in Note 7 to the consolidated financial statements.

Environmental Remediation— See detailed discussion concerning Environmental Remediation in Note 11 to the consolidated financial statements.

SJI - 30

Customer Choice Legislation— All residential natural gas customers in New Jersey can choose their gas supplier under the terms of the *"Electric Discount and Energy Competition Act of 1999."* As of June 30, 2006, approximately 16,500 of SJG's residential customers chose a natural gas commodity supplier other than SJG. The number of such customers fell from approximately 82,800 at June 30, 2005, as marketers were unable to offer natural gas at prices competitive with those available under regulated utility tariffs during the later part of 2005, due to unfavorable market conditions. However, during the first quarter of 2006 marketers began adding customers through new offers. Customers purchasing natural gas from providers other than SJG are charged for gas costs by the marketer, not SJG. While customer choice can significantly affect utility revenues and gas costs, it does not affect SJG's earnings or financial condition (See Results of Operations). The BPU continues to allow for full recovery of prudently incurred natural gas costs through the Basic Gas Supply Service (BGSS) Clause as well as other costs of service, including deferred costs, through tariffs.

For a period of several years, marketers had successfully attracted gas commodity customers by offering natural gas at prices competitive with those available under regulated utility tariffs. More recently, marketers have found it increasingly difficult to compete with the utility under changing market conditions (See caption Operating Revenues - Utility). SJE responded to these difficult market conditions by returning all of their approximately 69,000 residential gas customers to the utility at the end of the third quarter of 2005. SJE began marketing a new residential offer that is more reflective of current market conditions during the first quarter of 2006.

RESULTS OF OPERATIONS:

Operating Revenues— Utility— Revenues, net of intercompany transactions, increased $10.3 million and $67.7 million for the three and six months periods ended June 30, 2006, respectively, compared with the same periods last year primarily due to four factors. First, SJG added 8,743 customers during the 12-month period ended June 30, 2006, which represents a 2.8% increase in total customers. Second, 80% of the residential customers and 20% of the commercial customers purchasing their gas from sources other than SJG migrated back to utility sales service during the 12-month period ended June 30, 2006. The total number of transportation customers decreased from 82,829 at June 30, 2005, to only 16,475 at June 30, 2006, as third party marketers found it difficult to compete with SJG's BGSS rates under current market conditions. The migration of customers from transportation service back to sales service has a direct impact on utility revenues as charges for gas costs are included in sales revenues and not in transportation revenues. However, since gas costs are passed on directly to customers without any profit margin added by SJG, the change in customer utilization of gas marketers did not impact SJG's earnings. Third, SJG was granted two BGSS rate increases as a result of substantial increases in wholesale natural gas prices across the country. The first increase in September 2005, resulted in a 4.4% increase in the average residential customer's bill and 5.0% in the average commercial/industrial customer's bill. The second was effective in December 2005, and resulted in a 24.3% increase in the average residential customer's bill and 28.4% in the average commercial/industrial customer's bill. However, as previously stated, since gas costs are passed on directly to customers without any profit margin added by SJG, the BGSS rate increases did not impact SJG's profitability. Fourth, SJG experienced an increase in revenues from Off-System Sales (OSS) as a result of higher sales volume in the second quarter of 2006 as compared with the same period in 2005. The increase in volume is due primarily to market conditions which favored off-system sales as opposed to capacity release. An off-system sale requires the purchase and sale of natural gas whereas a capacity release does not include the cost of the natural gas. As a result, off-system sales creates higher revenue than does capacity release. Partially offsetting the positive factors noted above were lower customer utilization rates experienced during the three and six months ended June 30, 2006, compared with the same periods in 2005, primarily due to the impact of higher natural gas prices on customer usage.

Total gas throughput decreased 16.5% to 29.2 billion cubic feet (Bcf) for the three months ended June 30, 2006, compared with the same period in 2005. Total gas throughput decreased 17.2% to 67.9 Bcf for the six months ended June 30, 2006, compared with the same period in 2005. The lower throughput was primarily due to significantly warmer weather experienced during 2006, as previously discussed under the TAC.

SJI - 31

The following table is a comparison of utility operating revenue and throughput for the three and six months ended June 30:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Operating Revenues (thousands):				
Firm Sales				
Residential	$ 46,948	$ 29,943	$ 213,384	$ 127,114
Commercial	12,844	10,234	64,253	45,438
Industrial	948	566	2,962	2,144
Cogeneration & Electric Generation	2,303	3,813	3,360	5,139
Firm Transportation				
Residential	781	5,440	2,143	20,926
Commercial	2,252	2,514	6,473	8,421
Industrial	2,992	3,245	6,262	6,564
Cogeneration & Electric Generation	11	60	11	105
Total Firm Revenues	69,079	55,815	298,848	215,851
Interruptible	370	424	769	839
Interruptible Transportation	358	516	992	1,115
Off-System	33,101	26,334	74,744	75,239
Capacity Release & Storage	1,699	2,414	6,001	6,606
Other	399	580	733	970
Intercompany Sales	(9,899)	(1,324)	(17,459)	(3,694)
Total Operating Revenues	$ 95,107	$ 84,759	$ 364,628	$ 296,926
Throughput (MMcf):				
Firm Sales -				
Residential	2,439	2,287	12,213	10,591
Commercial	903	907	4,182	4,260
Industrial	28	26	128	126
Cogeneration & Electric Generation	215	422	244	487
Firm Transportation -				
Residential	135	1,035	447	4,839
Commercial	745	888	2,339	3,167
Industrial	3,269	3,912	6,629	8,051
Cogeneration & Electric Generation	10	85	12	96
Total Firm Throughput	7,744	9,562	26,194	31,617
Interruptible	33	41	64	79
Interruptible Transportation	812	741	1,784	1,596
Off-System	4,518	3,467	8,636	10,130
Capacity Release & Storage	16,090	21,150	31,195	38,504
Total Throughput	29,197	34,961	67,873	81,926

SJI - 32

Operating Revenues — Nonutility (Restated)— Combined revenues for SJI's nonutility businesses, net of intercompany transactions, decreased by $5.1 million and $18.3 million for the three and six months ended June 30, 2006, respectively, compared with the same periods of 2005.

SJE's revenues from retail gas decreased by $6.2 million and $22.6 million for the three and six months ended June 30, 2006, respectively, compared with the same periods of 2005, due mainly to a decline in the number of residential and commercial gas customers, resulting from unfavorable market conditions. As the market price for gas has been above the price charged by SJG to its customers, SJE returned all of its approximately 69,000 residential customers to the utility in the third quarter of 2005 and only recently resumed its residential gas marketing efforts. The loss of residential and commercial sales revenue was partially offset by higher gas prices.

SJE's revenues from retail electricity decreased by $5.5 million and $15.2 million for the three and six months ended June 30, 2006, compared with the same periods of 2005, due mainly to the loss of revenues from a large school contract that was not renewed in May 2005. This decrease was partially offset by higher electricity commodity prices and the addition of several industrial customers.

SJRG's revenues increased by $6.9 million and $17.5 million for the three and six months ended June 30, 2006, respectively, compared with the same periods of 2005. Of this increase, $8.1 million and $16.4 million, relate to the net change in mark to market gain recorded on forward financial contracts. Due to price volatility, SJRG recorded a net unrealized loss of $2.7 million for the three months ended June 30, 2006 compared with $10.8 million for the same period of 2005. For the six months ended June 30, 2006, SJRG recorded a net unrealized gain of $10.0 million compared with a net unrealized loss of $6.4 million recorded in the same period of 2005. Operationally, the increase related to higher gas prices was partially offset by lower sales volume attributable to SJE's turnback of their residential customers to SJG in September 2005.

Cost of Sales — Utility— Cost of sales, net of intercompany transactions, increased $12.4 million and $71.4 million during the three and six month periods ended June 30, 2006, respectively, compared with the same periods in 2005. This increase resulted from growth in SJG's total customer base, the impact of the migration of customers from transportation service back to sales service and increased gas costs now being recovered through rates. Changes in the unit cost of gas sold to utility ratepayers do not always directly affect cost of sales. SJG defers fluctuations in gas costs to ratepayers not reflected in current rates to future periods under a BPU-approved Basic Gas Supply Service (BGSS) price structure. As a result of the two BGSS rate increases in 2005, discussed under Operating Revenues - Utility, SJG was able to recover and recognize some of the increase in gas costs experienced during the later part of 2005 and the first quarter of 2006.

Gas supply sources include contract and open-market purchases. SJG secures and maintains its own gas supplies to serve its sales customers. SJG does not anticipate any difficulty renewing or replacing expiring contracts under acceptable terms and conditions.

Cost of Sales — Nonutility (Restated)— Combined cost of sales for SJI's nonutility businesses, net of intercompany transactions, decreased $9.2 million and $29.2 million for the three and six months ended June 30, 2006, respectively, compared with the same periods of 2005.

SJE's cost of retail gas sales decreased by $4.0 million and $18.3 million for the three and six months ended June 30, 2006, respectively, compared with the same periods of 2005, due mainly to lower volumes of gas sold caused by the loss of residential and commercial customers, which was partially offset by higher gas commodity prices. SJE's cost of retail electricity sales decreased $6.3 million and $16.0 million for the three and six months ended June 30, 2006, respectively, compared with the same periods of 2005, due mainly to the expiration of the school board contract in May 2005. This decrease was partially offset by higher electricity commodity prices and the addition of several industrial customers.

SJRG's cost of sales increased $0.5 million and $2.6 million for the three and six months ended June 30, 2006, respectively, compared with the same periods of 2005, mainly due to higher gas prices.

<u>Operations Expense</u> — A summary of net changes in operations expense, for the three and six months ended June 30 follows (in thousands):

	Three Months Ended June 30, 2006 vs. 2005	Six Months Ended June 30, 2006 vs. 2005
Utility	$ (1,419)	$ (2,877)
Nonutility:		
Wholesale Gas	229	486
Retail Gas and Other	(39)	(1,211)
Retail Electricity	(91)	(75)
On-Site Energy Production	331	728
Appliance Service	15	(8)
Total Nonutility	445	(80)
Corporate and Services	1,916	3,842
Intercompany Eliminations	(2,331)	(4,804)
Total Operations	$ (1,389)	$ (3,919)

Utility Operations expense decreased $1.4 million during the second quarter of 2006 and $2.9 million during the first half of 2006, compared with the same periods in 2005, primarily as a result of five factors. First, SJG experienced a $0.4 million reduction in its bad debt expense during the second quarter corresponding with a decrease in its accounts receivable as a result of warmer weather. Second, there were $0.3 million and $1.3 million decreases for the three and six month periods ended June 30, 2006, respectively, in SJG's costs under the New Jersey Clean Energy Programs (NJCEP). Such costs are recovered on a dollar-for-dollar basis; therefore, SJG experienced offsetting decreases in revenues during the periods. The BPU-approved NJCEP allows for full recovery of costs, including carrying costs when applicable. As a result, the decrease in expense had no impact on SJG's net income. Third, SJG's regulatory expenses decreased $0.3 million in the first half of 2006 primarily as a result of amortizations of previously deferred expense related to its 2004 base rate proceeding with the BPU. Such costs were fully amortized as of December 31, 2005. The amount previously amortized in 2005 was $128,000 per quarter. Fourth, insurance expense was offset by $0.1 million in the second quarter of 2006 due to a refund approved by SJG's insurance carrier. Lastly, SJG also experienced lower pension and other postretirement benefit costs during 2006 as detailed in Note 8 to the consolidated financial statements. Such reductions were the result of earnings on additional contributions to both plans, the transfer of employees to SJI Services, LLC effective January 1, 2006, and savings resulting from the early retirement plan offered in 2004 and 2005.

Nonutility Wholesale Gas Operations expense increased for three and six months ended June 30, 2006, compared with the same periods of 2005, due mainly to higher Corporate and Services cost allocations.

Nonutility Retail Gas and Other Operations expense decreased for the six months ended June 30, 2006, compared with the same period of 2005, mainly due to a significant uncollectible reserve adjustment following a bankruptcy declaration by one of SJE's industrial gas customers in 2005.

Nonutility On-Site Energy Production Operations expense increased for the three and six months ended June 30, 2006, compared to the same periods of 2005, due mainly to higher labor and operating costs at all active projects, higher Corporate and Services cost allocations and a full six months of costs related to our ACLE project which began operations in March 2005.

Corporate and Services increased for the three and six months ended June 30, 2006 compared with the same periods of 2005, mainly due to the formation of SJI Services, LLC (SJIS) effective January 1, 2006 and the growing needs of our nonutility subsidiaries. Common services such as information technology, human resources, government relations, corporate communications, materials purchasing, fleet management and insurance were transferred to SJIS, having mostly been housed within SJG prior to January 1, 2006. Because these costs are allocated to our operating subsidiaries, they are eliminated in consolidation.

Other Operating Expenses — A summary of changes in other consolidated operating expenses for the three and six months ended June 30 follows (in thousands):

	Three Months Ended June 30, 2006 vs. 2005	Six Months Ended June 30, 2006 vs. 2005
Maintenance	$ (146)	$ (234)
Depreciation	425	894
Energy and Other Taxes	(226)	(653)

Depreciation expense increased for the three and six months ended June 30, 2006, compared with the same periods of 2005, due mainly to SJG's continuing investment in utility plant.

Energy and Other Taxes decreased for the three and six months ended June 30, 2006, compared with the same periods in 2005, primarily due to lower energy-related taxes based on the decreased sales volumes in 2006. This was partially offset by a slight increase in SJG's revenue-based taxes resulting from higher revenues, as discussed in detail under Operating Revenues-Utility.

Other Income — Other income increased $0.7 million and $0.5 million for the three and six months ended June 30, 2006, compared with same periods of 2005, due mainly to the gain recognized by South Jersey Energy upon the sale of their interest in AirLogics, LLC on June 30, 2006.

Interest Charges— Interest charges increased by $1.3 million and $2.4 million for the three and six months ended June 30, 2006, compared with the same periods of 2005, due primarily to higher levels of short-term debt and higher interest rates on short-term debt. Short-term debt levels rose to support our capital expenditures, which were not financed with long-term debt until 2006, and to support higher gas costs incurred during the 2006 summer injection period. A steep rise in short-term interest rates was driven by a series of interest rate hikes enacted by the Federal Reserve Bank over the periods covered by this Report. Debt is incurred primarily to expand and upgrade SJG's gas transmission and distribution system, to support seasonal working capital needs related to inventories, customer receivables, and to develop energy projects.

Liquidity and Capital Resources— Liquidity needs are driven by factors that include natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under the Basic Gas Supply Service charge; working capital needs of our energy trading and marketing activities; the timing of construction and remediation expenditures and related permanent financings; mandated tax payment dates; both discretionary and required repayments of long-term debt; and the amounts and timing of dividend payments.

Liquidity needs are first met with net cash provided by operating activities. Net cash provided by operating activities totaled $35.2 million and $80.5 million for the six months ended June 30, 2006 and 2005, respectively. Net cash provided by operating activities varies from year-to-year primarily due to the impact of weather on customer demand and related gas purchases, inventory utilization and gas cost recoveries. Net cash provided by operating activities for the first half of 2006 was impacted by higher gas costs and warmer weather than experienced during the same period of 2005. The larger than normal change in Accounts Payable was the primary cause of the decrease in operating cash flow. High gas costs boosted payable levels at the end of 2005 and warm weather and lower customer utilization rates experienced during 2006 resulted in higher than normal levels of natural gas in storage that had been paid for as of June 30, 2006. Typically, we would be buying more gas during the second quarter to inject into storages that had been depleted during the winter season, causing payables to rise.

We use short-term borrowings under lines of credit from commercial banks to supplement cash from operations, to support working capital needs and to finance capital expenditures as incurred. From time to time, we refinance short-term debt incurred to finance capital expenditures with long-term debt.

SJI’s operations are also subject to seasonal fluctuations. Significant changes in the balances of Current Assets and Current Liabilities can occur from the end of one reporting period to another, as evidenced by the changes on the consolidated balance sheets. The high level of gas inventory maintained as of June 30, 2006 is expected to result in reduced cash outflows during the next quarter.

Bank credit available to SJI totaled $266.0 million at June 30, 2006, of which $164.9 million, inclusive of $20.3 million of letters of credit, was used. Those bank facilities consist of a $100.0 million revolving credit facility and $76.0 million of uncommitted bank lines available to SJG; and a $60.0 million revolving credit facility and $30.0 million of uncommitted bank lines available to SJI. On August 3, 2006, SJG replaced the existing revolving credit with a new $100.0 million revolver that expires in August 2011. SJI is presently working with its banks to also extend SJI’s existing revolving credit from August 2007 through August 2011. The revolving credit facilities contain certain financial covenants measured on a quarterly basis. SJI and SJG were in compliance with these covenants as of June 30, 2006. Based upon the existing credit facilities and a regular dialogue with our banks, we believe there will continue to be sufficient credit available to meet our business’ future liquidity needs.

SJI supplements its operating cash flow and credit lines with both debt and equity capital. Over the years, SJG has used long-term debt, primarily in the form of First Mortgage Bonds and Medium Term Notes (MTN), secured by the same pool of utility assets, to finance its long-term borrowing needs. These needs are primarily capital expenditures for property, plant and equipment. In September of 2005, SJG established a new $150.0 million MTN program. On April 20, 2006, SJG issued $25.0 million of secured tax-exempt, auction-rate debt through the New Jersey Economic Development Authority (NJEDA). The auction rate, which resets weekly, was 3.79% as of June 30, 2006. In anticipation of this transaction, SJG previously entered into forward-starting interest rate swap agreements that effectively fixed the interest rate on this debt at 3.43% commencing December 1, 2006, through January 2036. The debt was issued under SJG’s MTN program. An additional $115.0 million of MTN’s remains available for issuance under that program.

In March 2006, Marina issued $16.4 million of tax-exempt Series A variable-rate bonds, through the NJEDA due in 2036. The proceeds are being used to fund construction costs related to Marina’s Atlantic City thermal plant expansion which serves Borgata’s expanded resort which opened on June 30, 2006. Investors in the bonds receive liquidity and credit support via letters of credit provided by commercial banks. The underlying letters of credit that provide liquidity support for the weekly remarketing of the variable-rate demand bonds are issued under agreements that expire in August and September 2007.

SJI has raised equity capital over the past several years through its Dividend Reinvestment Plan (DRP). Participants in SJI's DRP receive newly issued shares. We offer a 2% discount on DRP investments as it is the most cost-effective way to raise equity capital in the quantities we are seeking. Through the DRP, SJI raised $2.5million of equity capital by issuing 93,222 shares during the six months ended June 30, 2006 and $31.9 million of equity capital by issuing 1,141,590 shares during the year ended December 31, 2005. We anticipate raising a total of less than $10.0 million of additional equity capital through the DRP in 2006.

SJI’s capital structure was as follows:

	As of June 30, 2006	As of December 31, 2005
Common Equity	45.6%	45.6%
Long-Term Debt	38.6%	37.3%

Short-Term Debt	15.8%	17.1%
Total	100.0%	100.0%

SJG's long-term, senior secured debt is rated "A" and "Baa1" by Standard & Poor's and Moody's Investor Services, respectively. These ratings have not changed in the past five years.

SJG is restricted as to the amount of cash dividends or other distributions that may be paid on its common stock by an order issued by the BPU in July 2004, that granted SJG an increase in base rates. Per the order, SJG is required to maintain total common equity of no less than $289.2 million. SJG's total common equity balance was $360.7 million at June 30, 2006.

CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENCIES:

Capital Expenditures — SJI has a continuing need for cash resources and capital, primarily to invest in new and replacement facilities and equipment and for environmental remediation costs. Net cash outflows for construction and remediation projects for the six months ended June 30, 2006 amounted to $42.3 million and $3.5 million, respectively. We estimate the net cash outflows for construction and remediation projects for 2006, 2007 and 2008 to be approximately $54.7 million, $46.6 million and $46.1 million, respectively. Included in the 2006 estimates is $8.9 million in capital costs accrued but not paid as of December 31, 2005, primarily related to two large special projects totaling $12.1 million for SJG pipeline installation.

Commitments and Contingencies— SJI is obligated on the letters of credit supporting the variable-rate demand bonds issued through the New Jersey Economic Development Authority by Marina. Commercial banks have issued $62.3 million of renewing letters of credit to support the financing of the original construction and recent expansion of Marina's Atlantic City thermal plant project. The agreements under which the letters of credit were issued contain certain financial covenants measured on a quarterly basis. SJI was in compliance with these covenants as of June 30, 2006.

SJG has certain commitments for both pipeline capacity and gas supply for which it pays fees regardless of usage. Those commitments as of June 30, 2006, average $49.8 million annually and total $223.6 million over the contracts' lives. Approximately 54% of the financial commitment under these contracts expires during the next five years. We expect to renew each of these contracts under renewal provisions as provided in each contract. SJG recovers all prudently incurred costs through rates via the Basic Gas Supply Service clause.

The following table summarizes our contractual cash obligations and their applicable payment due dates as of June 30, 2006 (in thousands):

Contractual Cash Obligations	Total	Up to 1 Year	Years 2 & 3	Years 4 & 5	More than 5 Years
Long-Term Debt	$ 360,496	$ 2,363	$ 211	$ 10,237	$ 347,685
Interest on Long-Term Debt	312,591	20,411	40,424	40,092	211,664
Operating Leases	1,118	409	618	91	-
Construction Obligations	109,745	39,916	69,829	-	-
Commodity Supply Purchase Obligations	574,831	292,360	169,086	47,169	66,216
New Jersey Clean Energy Program	16,770	5,270	11,500	-	-
Other Purchase Obligations	17,580	8,487	8,193	900	-
Total Contractual Cash Obligations	$ 1,393,131	$ 369,216	$ 299,861	$ 98,489	$ 625,565

Expected environmental remediation costs and asset retirement obligations are not included in the table above due to the subjective nature of these costs and the timing of anticipated payments. As a result, the total obligation cannot be calculated. Additionally, future pension contributions are not included in the table as contributions vary from year-to-year based on investment performance and discount rates. SJG's regulatory obligation to contribute to SJG's postretirement benefit plans' trust, as discussed in Note 8 to the consolidated financial statements, is also not included as its duration is indefinite.

Off-Balance Sheet Arrangements— SJI has no off-balance sheet financing arrangements.

Explanation of Responses:

Parental Guarantees— As of June 30, 2006, SJI had issued $287.6 million of parental guarantees on behalf of its subsidiaries. Of this total, $236.5 million expire within one year, $5.0 million expire between one and two years, and $46.1 million have no expiration date. The vast majority of these guarantees were issued as guarantees of payment to third parties with whom our subsidiaries have commodity supply contracts. These contracts contain netting provisions, which permit us to net the ultimate cash payment for monthly buys and sells from/to counterparties. As of June 30, 2006, these guarantees support future firm commitments and $33.5 million of the Accounts Payable recorded on our consolidated balance sheet. As part of our risk management policy, we also require parental guarantees from trading counterparties as applicable. These arrangements are typical in our industry. SJI has also issued several parental guarantees totaling $18.3 million related to Marina’s construction and operating activities.

Pending Litigation— SJI is subject to claims arising in the ordinary course of business and other legal proceedings. We accrue liabilities related to claims when we can determine the amount or range of amounts of probable settlement costs. SJI has been named in, among other actions, certain product liability claims related to our former sand mining subsidiary. Management does not currently anticipate the disposition of any known claims to have a material adverse effect on SJI’s financial position, results of operations or liquidity.

Union Contract— Unionized personnel represent 61% of our workforce at June 30, 2006 and are operating under agreements that run through at least January 2008.

Item 3. Quantitative and Qualitative Disclosures About Market Risk of the Company (Restated) (Unaudited)

Commodity Market Risks— Certain regulated and nonregulated 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 price fluctuations. To hedge against this risk, we enter into a variety of physical and financial transactions including forward contracts, swaps, futures and options agreements. To manage these transactions, SJI has a well-defined risk management policy approved by our Board of Directors that includes volumetric and monetary limits. Management reviews reports detailing activity daily. Generally, the derivative activities described above are entered into for risk management purposes.

SJG and SJE transact commodities on a physical basis and typically do not enter into financial derivative positions directly. SJRG manages risk for these entities as well as for its own portfolio by entering into the types of transactions noted above. As part of its gas purchasing strategy, SJG uses financial contracts to hedge against forward price risk. These contracts are recoverable through SJG’s BGSS, subject to BPU approval. It is management's policy, to the extent practical, within predetermined risk management policy guidelines, to have limited unmatched positions on a deal or portfolio basis while conducting these activities. As a result of holding open positions to a minimal level, the financial impact to SJRG of changes in value of a particular transaction is substantially offset by an opposite change in the related hedge transaction.

SJRG and SJE entered into certain contracts to purchase, sell, and transport natural gas. For those derivatives not designated as hedges, we recorded the net unrealized pre-tax loss of $(2.7) million and $(9.7) million in earnings during the three months ended June 30, 2006 and 2005, respectively, which are included with realized gains and losses in Operating Revenues — Nonutility. For the six months ended June 30, 2006, we recorded the net unrealized pre-tax gain (loss) of $10.0 and $(5.7) million, respectively. Typically, SJRG's, SJE's, and SJG's contracts are less than 12 months long. The fair value and maturity of all these energy trading contracts determined using mark-to-market accounting as of June 30, 2006 is as follows (in thousands):

<u>Assets</u>

	Source of Fair Value	Maturity < 1 Year	Maturity 1 - 3 Years	Beyond 3 Years	Total
Prices Actively Quoted	NYMEX	$ 11,587	$ 4,987	$ 827	$ 17,401
Other External Sources	Basis	8,171	2,283	48	10,502
Total		$ 19,758	$ 7,270	$ 875	$ 27,903

<u>Liabilities</u>	Source of Fair Value	Maturity < 1 Year	Maturity 1 - 3 Years	Beyond 3 Years	Total
Prices Actively Quoted	NYMEX	$ 22,181	$ 7,368	$ 774	$ 30,324
Other External Sources	Basis	6,194	1,063	—	7,257
Total		$ 28,375	$ 8,431	$ 774	$ 37,581

NYMEX (New York Mercantile Exchange) is the primary national commodities exchange on which natural gas is traded. Basis represents the price of a NYMEX natural gas futures contract adjusted for the difference in price for delivering the gas at another location. Contracted volumes of our NYMEX and Basis Contracts are 9.8 million decatherms with a weighted-average settlement price of $10.44 per decatherm.

A reconciliation of SJI's estimated net fair value of energy-related derivatives follows (in thousands):

Net Derivatives — Energy Related Assets, January 1, 2006	$ 2,636
Contracts Settled During Six Months Ended June 30, 2006, Net	(4,728)
Other Changes in Fair Value from Continuing and New Contracts, Net	(7,586)
Net Derivatives — Energy Related Liabilities, June 30, 2006	$ (9,678)

SJI - 39

Interest Rate Risk— Our exposure to interest-rate risk relates primarily to short-term, variable-rate borrowings. Short-term, variable-rate debt outstanding at June 30, 2006 was $144.6 million and averaged $121.5 million during the first six months of 2006. A hypothetical 100 basis point (1%) increase in interest rates on our average variable-rate debt outstanding would result in a $717,000 increase in our annual interest expense, net of tax. The 100 basis point increase was chosen for illustrative purposes, as it provides a simple basis for calculating the impact of interest rate changes under a variety of interest rate scenarios. Over the past five years, the change in basis points (b.p.) of our average monthly interest rates from the beginning to end of each year was as follows: 2005 — 194 b.p. increase; 2004 — 115 b.p. increase; 2003 — 28 b.p. decrease; 2002 — 74 b.p. decrease; and 2001 — 383 b.p. decrease. For June 2006, our average interest rate on variable-rate debt was 5.70%.

We issue long-term debt either at fixed rates or use interest rate derivatives to fix interest rates on variable-rate, long-term debt. As of June 30, 2006, the interest costs on all but $1.1 million of our long-term debt were either at a fixed-rate or at a rate fixed via an interest rate derivative. Consequently, interest expense on existing long-term debt is not significantly impacted by changes in market interest rates.

As of June 30, 2006, SJI's active interest rate swaps were as follows:

	Amount		Fixed Interest Rate	Start Date	Maturity	Type	Obligor
$	6,000,000	*	4.550%	11/19/2001	12/01/2007	Taxable	Marina
$	3,900,000		4.795%	12/01/2004	12/01/2014	Taxable	Marina
$	8,000,000		4.775%	11/12/2004	11/12/2014	Taxable	Marina
$	20,000,000		4.080%	11/19/2001	12/01/2011	Tax-exempt	Marina
$	14,500,000		3.905%	03/17/2006	01/15/2026	Tax-exempt	Marina
$	500,000		3.905%	03/17/2006	01/15/2026	Tax-exempt	Marina
$	330,000		3.905%	03/17/2006	01/15/2026	Tax-exempt	Marina
$	12,500,000	**	3.430%	12/01/2006	02/01/2036	Tax-exempt	SJG
$	12,500,000	**	3.430%	12/01/2006	02/01/2036	Tax-exempt	SJG
$	7,100,000		4.895%	02/01/2006	02/01/2016	Taxable	Marina

* 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.

Item 4. Controls and Procedures (Restated)

Disclosure Controls and Procedures

The Company's management, with the participation of its chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2006 in connection with the filing of the original Form 10-Q on August 9, 2006. Based on that evaluation, the Company's chief executive officer and chief financial officer concluded that these disclosure controls and procedures were effective.

Subsequent to the evaluation made in connection with the filing of the Form 10-Q for the three and six months ended June 30, 2006 and in connection with the restatement and the filing of this Form 10-Q/A, the Company's management, with the participation of its chief executive officer and chief financial officer, reevaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures and concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2006 due to the following material weakness:

- The Company did not designate at inception certain hedging relationships with the required specificity necessary to meet the requirements of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). Specifically, controls to ensure that a forecasted transaction being hedged was described and documented with sufficient specificity so that when the transaction occurs, it was clear whether the transaction was or was not the hedged transaction did not operate effectively. Management has determined that the documentation of these hedges did not contain sufficient specificity to qualify them for hedge accounting, resulting in a material weakness.

This material weakness resulted in the restatement of the Company’s previously issued consolidated financial statements as more fully described in Note 12 to the consolidated financial statements.

Changes in Internal Control Over Financial Reporting

There has not been any change in the Company's internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the fiscal quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Subsequent to June 30, 2006, the Company has discontinued the use of hedge accounting for energy contracts and is currently evaluating whether it will be used in future periods. Prior to applying hedge accounting, the Company will ensure that appropriate procedures have been implemented to comply with the provisions of SFAS 133.

PART II — OTHER INFORMATION

Item l. Legal Proceedings

Information required by this Item is incorporated by reference to Part I, Item 1, Note 11, beginning on page 23.

Item 1A. Risk Factors

The following paragraph should be read in conjunction with the risk factors included in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005:

Non-routine or extraordinary disruptions to SJG's natural gas distribution system could significantly affect its results of operations and financial position.

Utility distribution systems are routinely disrupted for a variety of reasons that include leak repair, system upgrades and contractor damage. These disruptions are typically localized and result in relatively brief service disruptions that do not have a material impact on SJG's financial condition. However, accidental or intentional damage to multiple key portions of our distribution system, particularly if that damage occurred at the same time and depending on the type of damage, could result in an extended disruption in gas deliveries.

Item 4. Submission of Matters to a Vote of Security Holders

(a) Our annual meeting of shareholders was held on April 28, 2006.
(b) Class II directors (with a term expiring 2009) were elected as follows:

	For	Withheld
Shirli M. Billings	25,759,281	443,324
Thomas A. Bracken	24,689,524	1,513,081
Sheila Hartnett-Devlin	25,867,088	335,517
Frederick R. Raring	25,831,828	370,777

Class I directors (with a term expiring in 2008) continuing in office are:
Charles Biscieglia, Keith S. Campbell, and W. Cary Edwards. Mr. Biscieglia subsequently retired as a director on June 1, 2006.

Class III directors (with terms expiring in 2007) continuing in office are:
Helen R. Bosley, Edward J. Graham, William J. Hughes, and Herman D. James.

The appointment of Deloitte & Touche LLP as our independent accountants for the year ending December 2006 was approved by a vote of 25,783,267 for the appointment and 273,687 against, with 145,650 abstentions.

SJI - 42

Item 6. Exhibits (Restated)

(a) Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
32.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).
32.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTH JERSEY INDUSTRIES, INC.
(Registrant)

Dated: April 9, 2007 By: /s/ Edward J. Graham
Edward J. Graham
Chairman, President & Chief Executive Officer

Dated: April 9, 2007 By: /s/ David A. Kindlick
David A. Kindlick
Vice President & Chief Financial Officer

SJI - 44