

CONNECTICUT WATER SERVICE INC / CT

Form 10-Q

May 06, 2011

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2011 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 0-8084

Connecticut Water Service, Inc.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Connecticut | 06-0739839 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|--|------------|
| 93 West Main Street, Clinton, CT | 06413 |
| (Address of principal executive office) | (Zip Code) |

(860) 669-8636
(Registrant's telephone number, including area code)

Not Applicable
(Former name, address and former fiscal year, if changed since last report)

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 such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting

company” in Rule 12b-2 of the Exchange Act (Check One).

| | |
|--|--|
| Large Accelerated Filer <input type="radio"/> | Accelerated Filer <input checked="" type="radio"/> |
| Non-Accelerated Filer <input type="radio"/> | Smaller Reporting Company <input type="radio"/> |
| (Do not check if smaller reporting company) | |

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date

8,704,500

Number of shares of common stock outstanding, March 31, 2011
(Includes 115,585 common stock equivalent shares awarded under the Performance Stock Programs)

Connecticut Water Service, Inc. and Subsidiaries

Financial Report
March 31, 2011 and 2010

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Connecticut Water Service, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS
At March 31, 2011 and December 31, 2010
(Unaudited)
(In thousands)

| | March 31, 2011 | December 31, 2010 |
|--|-------------------|-------------------------|
| ASSETS | | |
| Utility Plant | \$469,384 | \$467,589 |
| Construction Work in Progress | 3,998 | 4,013 |
| | 473,382 | 471,602 |
| Accumulated Provision for Depreciation | (128,876) | (127,383) |
| Net Utility Plant | 344,506 | 344,219 |
| Other Property and Investments | 5,814 | 5,568 |
| Cash and Cash Equivalents | 1,200 | 952 |
| Accounts Receivable (Less Allowance, 2011 - \$1,221; 2010 - \$1,061) | 9,465 | 10,135 |
| Accrued Unbilled Revenues | 5,905 | 6,344 |
| Materials and Supplies, at Average Cost | 1,188 | 1,248 |
| Prepayments and Other Current Assets | 3,447 | 1,749 |
| Total Current Assets | 21,205 | 20,428 |
| Restricted Cash | 1,226 | 1,226 |
| Unamortized Debt Issuance Expense | 7,205 | 7,334 |
| Unrecovered Income Taxes | 25,938 | 24,696 |
| Pension Benefits | 6,091 | 6,296 |
| Post-Retirement Benefits Other Than Pension | 5,335 | 5,451 |
| Goodwill | 3,608 | 3,608 |
| Deferred Charges and Other Costs | 6,121 | 6,385 |
| Total Regulatory and Other Long-Term Assets | 55,524 | 54,996 |
| Total Assets | \$427,049 | \$425,211 |
| CAPITALIZATION AND LIABILITIES | | |
| Common Stockholders' Equity | \$113,916 | \$113,191 |
| Preferred Stock | 772 | 772 |
| Long-Term Debt | 111,485 | 111,675 |
| Total Capitalization | 226,173 | 225,638 |
| Interim Bank Loans Payable | 26,297 | 26,342 |
| Accounts Payable and Accrued Expenses | 4,607 | 6,552 |
| Accrued Taxes | 965 | 598 |
| Accrued Interest | 1,306 | 993 |

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| | | |
|---|-----------|-----------|
| Other Current Liabilities | 925 | 617 |
| Total Current Liabilities | 34,100 | 35,102 |
| Advances for Construction | 36,740 | 36,719 |
| Contributions in Aid of Construction | 55,822 | 55,761 |
| Deferred Federal and State Income Taxes | 34,722 | 34,246 |
| Unfunded Future Income Taxes | 20,741 | 19,474 |
| Long-Term Compensation Arrangements | 17,250 | 16,747 |
| Unamortized Investment Tax Credits | 1,361 | 1,376 |
| Other Long-Term Liabilities | 140 | 148 |
| Total Long-Term Liabilities | 166,776 | 164,471 |
| Commitments and Contingencies | | |
| Total Capitalization and Liabilities | \$427,049 | \$425,211 |

The accompanying notes are an integral part of these financial statements.

Connecticut Water Service, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CAPITALIZATION

At March 31, 2011 and December 31, 2010

(Unaudited)

(In thousands, except share data)

| | March 31, 2011 | December 31, 2010 |
|---|-------------------|-------------------------|
| Common Stockholders' Equity | | |
| Common Stock Without Par Value Authorized - 25,000,000 Shares; | \$72,126 | \$71,636 |
| Shares Issued and Outstanding: 2011 - 8,704,500 ; 2010 - 8,676,849 | | |
| Stock Issuance Expense | (1,612) | (1,612) |
| Retained Earnings | 43,841 | 43,603 |
| Accumulated Other Comprehensive Loss | (439) | (436) |
| Total Common Stockholders' Equity | 113,916 | 113,191 |
| Preferred Stock | | |
| Cumulative Preferred Stock of Connecticut Water Service, Inc. | | |
| Series A Voting, \$20 Par Value; Authorized, Issued and | | |
| Outstanding 15,000 Shares, Redeemable at \$21.00 Per Share | 300 | 300 |
| Series \$.90 Non-Voting, \$16 Par Value; Authorized 50,000 Shares | | |
| Issued and Outstanding 29,499 Shares, Redeemable at \$16.00 Per Share | 472 | 472 |
| Total Preferred Stock of Connecticut Water Service, Inc. | 772 | 772 |
| Long-Term Debt | | |
| The Connecticut Water Company | | |
| Unsecured Water Facilities Revenue Refinancing Bonds | | |
| 5.05% 1998 Series A, due 2028 | 9,570 | 9,580 |
| 5.125% 1998 Series B, due 2028 | 7,505 | 7,530 |
| 4.40% 2003A Series, due 2020 | 8,000 | 8,000 |
| 5.00% 2003C Series, due 2022 | 14,795 | 14,795 |
| Var. 2004 Series Variable Rate, due 2029 | 12,500 | 12,500 |
| Var. 2004 Series A, due 2028 | 5,000 | 5,000 |
| Var. 2004 Series B, due 2028 | 4,550 | 4,550 |
| 5.00% 2005 A Series, due 2040 | 14,885 | 14,885 |
| 5.00% 2007 A Series, due 2037 | 14,680 | 14,835 |
| 5.10% 2009 A Series, due 2039 | 20,000 | 20,000 |
| Total The Connecticut Water Company | 111,485 | 111,675 |
| Total Capitalization | \$226,173 | \$225,638 |

The accompanying notes are an integral part of these financial statements.

Connecticut Water Service, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended March 31, 2011 and 2010
(Unaudited)
(In thousands, except per share amounts)

| | 2011 | 2010 |
|--|----------|----------|
| Operating Revenues | \$15,989 | \$13,801 |
| Operating Expenses | | |
| Operation and Maintenance | 8,010 | 8,090 |
| Depreciation | 1,872 | 1,681 |
| Income Taxes | 1,102 | 409 |
| Taxes Other Than Income Taxes | 1,645 | 1,518 |
| Total Operating Expenses | 12,629 | 11,698 |
| Net Operating Revenues | 3,360 | 2,103 |
| Other Utility Income, Net of Taxes | 178 | 180 |
| Total Utility Operating Income | 3,538 | 2,283 |
| Other Income (Deductions), Net of Taxes | | |
| Non-Water Sales Earnings | 193 | 236 |
| Allowance for Funds Used During Construction | 31 | 31 |
| Other | (134) | (113) |
| Total Other Income, Net of Taxes | 90 | 154 |
| Interest and Debt Expense | | |
| Interest on Long-Term Debt | 1,149 | 1,167 |
| Other Interest Charges | 105 | 86 |
| Amortization of Debt Expense | 106 | 114 |
| Total Interest and Debt Expense | 1,360 | 1,367 |
| Net Income | 2,268 | 1,070 |
| Preferred Stock Dividend Requirement | 9 | 9 |
| Net Income Applicable to Common Stock | \$2,259 | \$1,061 |
| Weighted Average Common Shares Outstanding: | | |
| Basic | 8,579 | 8,502 |
| Diluted | 8,694 | 8,599 |
| Earnings Per Common Share: | | |
| Basic | \$0.26 | \$0.12 |

| | | |
|----------------------------|----------|----------|
| Diluted | \$0.26 | \$0.12 |
| Dividends Per Common Share | \$0.2325 | \$0.2275 |

The accompanying notes are an integral part of these financial statements.

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Connecticut Water Service, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(In thousands)

| | 2011 | 2010 |
|--|---------|---------|
| Net Income Applicable to Common Stock | \$2,259 | \$1,061 |
| Other Comprehensive Income, net of tax | | |
| Qualified Cash Flow Hedging Instrument Income, | | |
| net of tax expense of \$0 in 2011 and \$0 in 2010 | 1 | 1 |
| Adjustment to Pension and Post-Retirement Benefits Other | | |
| Than Pension, net of tax income of \$4 in 2011 and \$0 in 2010 | (6) | (1) |
| Unrealized Gain on Investments, net of tax expense of \$1 in 2011 and \$14 in 2010 | 2 | 22 |
| Comprehensive Income | \$2,256 | \$1,083 |

The accompanying notes are an integral part of these financial statements.

Connecticut Water Service, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(In thousands, except per share amounts)

| | 2011 | 2010 |
|---|----------|----------|
| Balance at Beginning of Period | \$43,603 | \$41,785 |
| Net Income Before Preferred Dividends | 2,268 | 1,070 |
| | 45,871 | 42,855 |
| Dividends Declared: | | |
| Cumulative Preferred, Class A, \$0.20 per share | 3 | 3 |
| Cumulative Preferred, Series \$0.90, \$0.225 per share | 6 | 6 |
| Common Stock - 2011 \$0.2325 per share; 2010 \$0.2275 per share | 2,021 | 1,956 |
| | 2,030 | 1,965 |
| Balance at End of Period | \$43,841 | \$40,890 |

The accompanying notes are an integral part of these financial statements.

Connecticut Water Service, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

(In thousands)

| | 2011 | 2010 |
|---|-----------|-----------|
| Operating Activities: | | |
| Net Income | \$2,268 | \$1,070 |
| Adjustments to Reconcile Net Income to Net Cash Provided by | | |
| Operating Activities: | | |
| Deferred Revenues | 60 | 60 |
| Allowance for Funds Used During Construction | (31) | (52) |
| Depreciation (including \$201 in 2011 and 2010 charged to other accounts) | 2,073 | 1,882 |
| Change in Assets and Liabilities: | | |
| Decrease in Accounts Receivable and Accrued Unbilled Revenues | 1,108 | 1,273 |
| Increase in Prepayments and Other Current Assets | (1,637) | (1,831) |
| Decrease in Other Non-Current Items | 1,050 | 979 |
| (Decrease) Increase in Accounts Payable, Accrued Expenses and Other | | |
| Current Liabilities | (301) | 431 |
| Increase in Deferred Income Taxes and Investment Tax Credits, Net | 486 | 405 |
| Total Adjustments | 2,808 | 3,147 |
| Net Cash and Cash Equivalents Provided by Operating Activities | 5,076 | 4,217 |
| Investing Activities: | | |
| Company Financed Additions to Utility Plant | (2,895) | (4,248) |
| Advances from Others for Construction | (70) | (32) |
| Net Additions to Utility Plant Used in Continuing Operations | (2,965) | (4,280) |
| Purchase of Customer Contracts | -- | (900) |
| Purchase of water systems, net of cash acquired | -- | (297) |
| Release of restricted cash | -- | 1,084 |
| Net Cash and Cash Equivalents Used in Investing Activities | (2,965) | (4,393) |
| Financing Activities: | | |
| Proceeds from Interim Bank Loans | 26,297 | 22,170 |
| Repayment of Interim Bank Loans | (26,342) | (25,000) |
| Proceeds from Issuance of Common Stock | 332 | 242 |
| Proceeds from the Exercise of Stock Options | -- | 20 |
| Repayment of Long-Term Debt Including Current Portion | (190) | (175) |
| Advances from Others for Construction | 70 | 32 |
| Cash Dividends Paid | (2,030) | (1,966) |
| Net Cash and Cash Equivalents Used in Financing Activities | (1,863) | (4,677) |
| Net (Decrease) Increase in Cash and Cash Equivalents | 248 | (4,853) |
| Cash and Cash Equivalents at Beginning of Period | 952 | 5,437 |
| Cash and Cash Equivalents at End of Period | \$1,200 | \$584 |

Non-Cash Investing and Financing Activities:

| | | |
|--|---------|----------|
| Non-Cash Contributed Utility Plant | \$112 | \$43 |
| Short-term Investment of Bond Proceeds Held in Restricted Cash | \$1,226 | \$11,611 |

Supplemental Disclosures of Cash Flow Information:

| | | |
|--------------------------------|---------|-------|
| Cash Paid for: | | |
| Interest | \$1,066 | \$980 |
| State and Federal Income Taxes | \$1,225 | \$481 |

The accompanying notes are an integral part of these financial statements.

Connecticut Water Service, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The consolidated financial statements included herein have been prepared by CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments that are of a normal recurring nature which are, in the opinion of management, necessary to a fair statement of the results for interim periods. Certain information and footnote disclosures have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The Balance Sheet at December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended December 31, 2010.

The results for interim periods are not necessarily indicative of results to be expected for the year since the consolidated earnings are subject to seasonal factors.

2. Pension and Other Post-Retirement Benefits

The following tables set forth the components of pension and other post-retirement benefit costs for the three months ended March 31, 2011 and 2010.

Pension Benefits

Components of Net Periodic Cost (in thousands):

| Period ended March 31, | Three Months | |
|--------------------------------|--------------|--------|
| | 2011 | 2010 |
| Service Cost | \$443 | \$409 |
| Interest Cost | 545 | 542 |
| Expected Return on Plan Assets | (675) | (639) |
| Amortization of: | | |
| Transition Obligation | -- | 1 |
| Prior Service Cost | 17 | 17 |
| Net Loss | 188 | 138 |
| Net Periodic Benefit Cost | \$518 | \$468 |

The Company expects to make contributions totaling \$1.2 million throughout 2011 for the 2010 plan year.

Post-Retirement Benefits Other Than Pension (PBOP)

Components of Net Periodic Cost (in thousands):

| Period ended March 31, | Three Months | |
|--------------------------------|--------------|-------|
| | 2011 | 2010 |
| Service Cost | \$187 | \$141 |
| Interest Cost | 179 | 135 |
| Expected Return on Plan Assets | (75) | (77) |

| | | |
|---------------------------|--------|--------|
| Other | 56 | 56 |
| Amortization of: | | |
| Prior Service Cost | (101) | (101) |
| Recognized Net Loss | 160 | 66 |
| Net Periodic Benefit Cost | \$406 | \$220 |

3. Earnings per Share

Earnings per weighted average common share are calculated by dividing net income applicable to common stock by the weighted average number of shares of common stock outstanding during the respective periods as detailed below (diluted shares include the effect of unexercised stock options):

| | | |
|---|-----------|-----------|
| Three months ended March 31, | 2011 | 2010 |
| Common Shares Outstanding End of Period: | 8,704,500 | 8,614,234 |
| Weighted Average Shares Outstanding (Days Outstanding Basis): | | |
| Basic | 8,578,873 | 8,502,293 |
| Diluted | 8,694,036 | 8,599,387 |
| Basic Earnings per Share | \$0.26 | \$0.12 |
| Dilutive Effect of Unexercised Stock Options | -- | -- |
| Diluted Earnings per Share | \$0.26 | \$0.12 |

Total unrecognized compensation expense for all stock awards was approximately \$1.0 million as of March 31, 2011 and will be recognized over the next three years.

4. New Accounting Pronouncements

There were no recently issued accounting standards that could potentially have a significant impact on our financial statement or the notes thereto.

Connecticut Water Service, Inc. and Subsidiaries

5. Fair Value Disclosures

FASB Accounting Standards Codifications (“ASC”) 820, “Fair Value Measurements and Disclosures” (“FASB ASC 820”) provides enhanced guidance for using fair value to measure assets and liabilities and expands disclosure with respect to fair value measurements.

FASB ASC 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company’s assumptions (unobservable inputs). The hierarchy consists of three broad levels, as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are either directly or indirectly observable.

Level 3 – Unobservable inputs developed using the Company’s estimates and assumptions, which reflect those that the Company believes market participants would use.

The following table summarizes our financial instruments measured at fair value on a recurring basis within the fair value hierarchy as of March 31, 2011:

| (in thousands) | Level 1 | Level 2 | Level 3 |
|-------------------|---------|---------|---------|
| Asset Type: | | | |
| Money Market Fund | \$53 | \$-- | \$-- |
| Mutual Funds: | | | |
| Equity Funds (1) | 856 | -- | -- |
| Total | \$909 | \$-- | \$-- |

The following table summarizes our financial instruments measured at fair value on a recurring basis within the fair value hierarchy as of December 31, 2010:

| (in thousands) | Level 1 | Level 2 | Level 3 |
|-------------------|---------|---------|---------|
| Asset Type: | | | |
| Money Market Fund | \$107 | \$-- | \$-- |
| Mutual Funds: | | | |
| Equity Funds (1) | 494 | -- | -- |
| Index Funds (2) | 160 | -- | -- |
| Total | \$761 | \$-- | \$-- |

(1) Mutual funds consisting primarily of equity securities.

(2) Mutual funds consisting primarily of funds linked to indices.

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments, which are not reported at market value on the financial statements.

Cash and cash equivalents – Cash equivalents consist of highly liquid instruments with original maturities at the time of purchase of three months or less. The carrying amount approximates fair value.

Restricted Cash – As part of the Company’s December 2009 bond offering, the Company recorded unused proceeds from this bond issuance as restricted cash as the funds can only be used for certain capital expenditures. The Company expects to use the remainder of the proceeds during 2011, as the approved capital expenditures are

completed. The carrying amount approximates fair value.

Long-Term Debt – The fair value of the Company's fixed rate long-term debt is based upon borrowing rates currently available to the Company. As of March 31, 2011 and December 31, 2010, the estimated fair value of the Company's long-term debt was \$103,524,000 and \$105,713,000, respectively, as compared to the carrying amounts of \$111,485,000 and \$111,675,000, respectively.

The fair values shown above have been reported to meet the disclosure requirements of accounting principles generally accepted in the United States and do not purport to represent the amounts at which those obligations would be settled.

6. Segment Reporting

The Company operates principally in three business segments: Water Activities, Real Estate Transactions, and Services and Rentals. Financial data for the segments is as follows (in thousands):

Three Months Ended March 31, 2011

| Segment | Revenues | Pre-Tax Income | Income Tax Expense | Net Income |
|--------------------------|----------|-------------------|-----------------------|------------|
| Water Activities | \$16,323 | \$3,257 | \$1,182 | \$2,075 |
| Real Estate Transactions | -- | -- | -- | -- |
| Services and Rentals | 1,167 | 329 | 136 | 193 |
| Total | \$17,490 | \$3,586 | \$1,318 | \$2,268 |

Three Months Ended March 31, 2010

| Segment | Revenues | Pre-Tax Income | Income Tax Expense | Net Income |
|--------------------------|----------|-------------------|-----------------------|------------|
| Water Activities | \$14,132 | \$1,289 | \$455 | \$834 |
| Real Estate Transactions | -- | -- | -- | -- |
| Services and Rentals | 1,080 | 394 | 158 | 236 |
| Total | \$15,212 | \$1,683 | \$613 | \$1,070 |

Connecticut Water Service, Inc. and Subsidiaries

The Revenues shown in Water Activities above consist of revenues from water customers of \$15,989,000 and \$13,801,000 for the three months ended March 31, 2011 and 2010, respectively. Additionally, there were revenues associated with utility plant leased to others of \$334,000 and \$331,000 for the three months ended March 31, 2011 and 2010, respectively.

The Company owns various small, discrete parcels of land that are no longer required for water supply purposes. From time to time, the Company may sell or donate these parcels, depending on various factors, including the current market for land, the amount of tax benefits received for donations and the Company's ability to use any benefits received from donations. During the three months ended March 31, 2011 and 2010, the Company did not engage in any such transactions.

Assets by segment (in thousands):

| | March 31, 2011 | December 31, 2010 |
|------------------------------------|-------------------|----------------------|
| Total Plant and Other Investments: | | |
| Water Activities | \$349,703 | \$349,221 |
| Non-Water | 617 | 566 |
| | 350,320 | 349,787 |
| Other Assets: | | |
| Water Activities | 74,284 | 72,600 |
| Non-Water | 2,445 | 2,824 |
| | 76,729 | 75,424 |
| Total Assets | \$427,049 | \$425,211 |

7. Income Taxes

FASB ASC 740 "Income Taxes" ("FASB ASC 740") addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FASB ASC 740, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The reassessment of the Company's tax positions in accordance with FASB ASC 740 did not have an impact on the Company's results of operations, financial condition or liquidity.

From time to time, the Company may be assessed interest and penalties by taxing authorities. In those cases, the charges would appear on the Other line item on the Income Statement. There were no such charges for the three month periods ended March 31, 2011 and 2010. Additionally, there were no accruals relating to interest or penalties as of March 31, 2011 and December 31, 2010. The Company remains subject to examination by state and federal authorities for the 2007 through 2009 tax years.

The Company's estimated annual effective income tax rate for the first three months of 2011 and 2010, exclusive of discrete items, was 36.7% and 36.5%, respectively. The statutory income tax rates during the same periods were 39%. In determining its annual estimated effective tax rate for interim periods, the Company reflects its estimated permanent and flow-through tax differences for the taxable year. The primary flow-through difference causing the effective rate to be less than the statutory rate in 2011 and 2010 is the difference between book and tax depreciation.

8. Lines of Credit

In November 2008, the Company was authorized by its Board of Directors to increase the available lines of credit from \$21 million to \$40 million. On June 30, 2009, the Company let expire one line of credit totaling \$6 million and entered into a new \$15 million line of credit agreement, which was to expire on June 25, 2010. In May 2010, the Company extended the maturity date of this line to June 25, 2011. On August 12, 2009, the Company replaced an existing \$3 million line of credit with a \$10 million line of credit, which expires on August 10, 2011. Finally, on September 15, 2009, the Company increased a third line of credit from \$12 million to \$15 million, with an expiration date of June 1, 2011. The Company expects to renew the lines of credit as they expire in 2011. The outstanding aggregate balance on these lines of credit was \$26.3 million as of March 31, 2011 and December 31, 2010, respectively, and are included in the Interim Bank Loans Payable line of the Balance Sheet. Interest expense charged on interim bank loans will fluctuate based on market interest rates.

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

The following discussion should be read in conjunction with the accompanying unaudited financial statements and related notes thereto and the audited financial statements and the notes thereto contained in our 2010 Annual Report on Form 10-K.

Regulatory Matters and Inflation

During the three months ended March 31, 2011, there were no material changes under this subheading to any items previously disclosed by the Company in its Annual Report on Form 10-K for the period ended December 31, 2010.

Department of Public Utility Control Matters

On July 14, 2010, the Department of Public Utility Control (DPUC) issued its Final Decision in a rate case filed by the Company on January 6, 2010, granting an increase in revenues of \$8.0 million, or approximately 13%, over pro forma test year revenues. The DPUC approved a return on equity of 9.75%. The new rates became effective for services rendered on or after July 14, 2010, at which point all previously approved Water Infrastructure Conservation Act (WICA) surcharges were folded into customers' base charges. Connecticut Water is not precluded from seeking increased rates for future years as part of a new general rate filing should it choose to do so.

On October 29, 2010, Connecticut Water filed a WICA application with the DPUC requesting a 1.58% surcharge to customer bills representing investments of approximately \$9.4 million in WICA related projects. On December 28, 2010, the DPUC approved the 1.58% surcharge effective for all bills issued after January 1, 2011. Additionally, due to under-collection of previously approved WICA surcharges during 2010, the Company was granted a 0.11% additional surcharge on bills issued after April 1, 2011 to make up the short-fall. It should be noted if the Company were to over-collect on WICA surcharges, the Company would be required to include a surcredit on customer bills.

Connecticut Water Service, Inc. and Subsidiaries

Organizational Review

As part of an organizational review, beginning in July 2010, the Company examined both its regulated and unregulated operations to ensure that it is maximizing the Company's financial results while maintaining the high quality water and service our customers have come to expect. During the third quarter of 2010, the Company determined that a targeted reduction in workforce was appropriate. The Company eliminated approximately 15 positions that centered on traditional managerial, officer and overhead positions. The Company did not eliminate positions in direct service of its customers. The Company recorded a one-time charge of approximately \$786,000 related to this organizational review during 2010. This charge represents the aggregate severance benefit provided to the employees leaving the Company, legal costs associated with the review and out placement services provided to the effected employees. The Company will continue to evaluate both active segments of its business and will make additional changes as warranted.

Acquisitions

The Company has previously announced that it had reached an agreement to acquire a water system in Old Lyme, Connecticut for \$216,000. It is expected, if approved by the DPUC, that this acquisition will add approximately 100 customers and additional water supply to the Company. Hearings related to this acquisition were held most recently in April 2011. The Company expects the DPUC to issue a final decision on the acquisition in July 2011. Additionally, during the first quarter of 2011, the Company completed the acquisition of a water company serving approximately 25 customers in the Town of Madison, Connecticut for a nominal amount.

Critical Accounting Policies and Estimates

The Company maintains its accounting records in accordance with accounting principles generally accepted in the United States of America and as directed by the DPUC to which Connecticut Water, the Company's regulated water utility subsidiary, is subject. Significant accounting policies employed by the Company, including the use of estimates, were presented in the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K filed on March 11, 2011.

Critical accounting policies are those that are the most important to the presentation of the Company's financial condition and results of operations. The application of such accounting policies requires management's most difficult, subjective, and complex judgments and involves uncertainties and assumptions. The Company's most critical accounting policies pertain to public utility regulation related to FASB ASC 980 "Regulated Operations", revenue recognition, and accounting for pension and other post-retirement benefit plans. Each of these accounting policies and the application of critical accounting policies and estimates were discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. There were no significant changes in the application of critical accounting policies or estimates during the three months ended March 31, 2011. Please see Note 4 of the financial statements for newly adopted and recently announced accounting standards.

Management must use informed judgments and best estimates to properly apply these critical accounting policies. Because of the uncertainty in these estimates, actual results could differ from estimates used in applying the critical accounting policies. The Company is not aware of any reasonably likely events or circumstances which would result in different amounts being reported that would materially affect its financial condition or results of operations.

Outlook

The following modifies and updates the “Outlook” section of the Company’s 2010 Annual Report on Form 10-K filed on March 11, 2011.

The Company’s earnings and profitability are primarily dependent upon the sale and distribution of water, the amount of which is dependent on seasonal weather fluctuations, particularly during the summer months when water demand will vary with rainfall and temperature levels. The Company’s earnings and profitability in future years will also depend upon a number of other factors, such as the ability to maintain our operating costs at current or lower levels, customer growth in the Company’s core regulated water utility business, growth in revenues attributable to non-water sales operations, and the timing and adequacy of rate relief when requested, from time to time, by our regulated water company.

As noted above, the DPUC, in July 2010, authorized a revenue increase equating to approximately 13%. Based on the allowed increase and continued cost-cutting measures in Operation and Maintenance expenses, including the Organizational Review discussed above, the Company expects its earnings from its Water Activities segment to be higher for the fiscal year ended December 31, 2011 than 2010. Income from our Services and Rentals segment is not expected to be materially different in 2011 than it was in 2010. The Company is in discussions with the Town of Plymouth, Connecticut to sell approximately 175 acres of land for open space purposes, upon approval from the DPUC and the Town of Plymouth. If approved, the Company expects the transaction to be completed in late 2011 or early 2012.

During 2011 and subsequent years, the ability of the Company to maintain and increase its Net Income will principally depend upon the effect on the Company of the factors described above in this “Outlook” section, those factors described in the sections entitled Item 1A – Risk Factors, “Commitments and Contingencies” in Item 7 of the Company’s Annual Report on Form 10-K and the risks and uncertainties described in the “Forward-Looking Information” section below.

Liquidity and Capital Resources

The Company is not aware of demands, events, or uncertainties that will result in a decrease of liquidity or a material change in the mix or relative cost of its capital resources, other than those outlined below.

With the implementation of the Company’s new Enterprise Resource Planning System (ERP), the Company delayed customer billings in order to verify the integrity of the system and the accuracy of those bills prior to mailing. As a result, some billings and consequently, cash receipts and collection efforts were delayed. The Company has increased its utilization of its lines of credit during this period. Its operations, including plans to continue investment in new infrastructure, are not impacted.

The delay in collection efforts contributed to the increase in the Company’s bad debt expense for the quarter of approximately \$107,000, when compared to the first quarter of 2010, based upon aging of the receivables. The Company has seen progress towards resolving the collection issues during the first quarter of 2011 and expects continued progress throughout the remainder of the year. The Company fully anticipates that the reserve will return to more historical levels by the end of 2011.

In November 2008, the Company was authorized by its Board of Directors to increase the available lines of credit from \$21 million to \$40 million. On June 30, 2009, the Company let expire one line of credit totaling \$6 million and entered into a new \$15 million line of credit agreement, which was to expire on June 25, 2010. In May 2010, the Company extended the maturity date of this line to June 25, 2011. On August 12, 2009, the Company replaced an existing \$3 million line of credit with a \$10 million line of credit, which expires on August 10, 2011. Finally, on September 15, 2009, the Company increased a third line of credit from \$12 million to \$15 million, with an expiration date of June 1, 2011. The Company expects to renew the lines of credit as they expire in 2011. The outstanding aggregate balance on these lines of credit was \$26.3 million as of March 31, 2011 and December 31, 2010,

respectively, and are included in the Interim Bank Loans Payable line of the Balance Sheet. As of March 31, 2011, the Company had \$13.7 million in unused lines of credit. Interest expense charged on interim bank loans will fluctuate based on market interest rates.

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The Board of Directors approved a \$23.0 million construction budget for 2011, net of amounts to be financed by customer advances and contributions in aid of construction. The Company is using a combination of its internally generated funds, borrowing under its available lines of credit, and the funds remaining under our 2010 debt issuance to fund this construction budget. The Company has obtained authorization through the Connecticut Development Authority to issue up to \$24 million in private activity bonds in 2011. The Company expects to conduct a bond offering late in 2011 or early in 2012.

Standard and Poor's, on April 28, 2011, affirmed their 'A' corporate credit rating on the Company with a stable outlook. The affirmation of the corporate credit rating follows their annual review of the Company and incorporates their expectation of adequate and timely rate relief and maintenance of our current financial risk profile. The stable outlook reflects improving regulation and timely rate relief in Connecticut.

The Company offers a dividend reinvestment plan (DRIP) to all registered shareholders, whereby shareholders can opt to have dividends directly reinvested into additional shares of the Company. During the three months ended March 31, 2011 and 2010, shareholders reinvested \$332,000 and \$242,000, respectively, in additional shares as part of the DRIP.

From 1999 through 2003, the Company issued stock options to certain employees of the Company. No stock options have been issued by the Company since 2003. During the three months ended March 31, 2011, no stock options were exercised. During the three months ended March 31, 2010, 809 stock options were exercised, resulting in approximately \$20,000 in proceeds to the Company.

As the Company looks forward to 2011 and 2012, it anticipates continued reinvestment to replace aging infrastructure and to seek recovery through periodic WICA applications. The total cost of that investment is expected to exceed the amount of internally generated funds. The Company expects that it will require external financings over the next two years. In order to maintain a balanced capital structure, we expect to consider both debt and equity issuances. As the capital investment planning process is completed in the coming periods, the Company expects to provide a reasonable range of these potential financings.

Results of Operations

Three Months Ended March 31

Net Income for the three months ended March 31, 2011 increased from the same period in the prior year by \$1,198,000 to \$2,268,000, which increased earnings per basic average common share by \$0.14, to \$0.26.

This increase in Net Income is broken down by business segment as follows:

| Business Segment | March 31, 2011 | March 31, 2010 | Increase/(Decrease) |
|--------------------------|-------------------|-------------------|---------------------|
| Water Activities | \$2,075,000 | \$834,000 | \$ 1,241,000 |
| Real Estate Transactions | -- | -- | -- |
| Services and Rentals | 193,000 | 236,000 | (43,000) |
| Total | \$2,268,000 | \$1,070,000 | \$ 1,198,000 |

The increase in the Water Activity segment's Net Income was primarily due to the net effects of the variances listed below:

Revenue

Revenue from our water customers increased by \$2,188,000, or 15.9%, to \$15,989,000 for the three months ended March 31, 2011 when compared to the same period in 2010. The primary reasons for the increase in revenues were an approximate 13% increase in rates as approved by the DPUC in July 2010 and an approximate 1.58% WICA surcharge effective January 1, 2011. Additionally, the Company saw a modest increase of approximately 1.0% in the amount of water produced at its treatment plants and pump stations.

Operation and Maintenance Expense

Operation and Maintenance expense decreased by \$80,000 primarily due to the following components:

| Expense Components | March 31, 2011 | March 31, 2010 | Increase/(Decrease) |
|----------------------------------|-------------------|-------------------|---------------------|
| Post retirement medical | \$406,000 | \$220,000 | \$ 186,000 |
| Regulatory commission expense | 124,000 | 38,000 | 86,000 |
| Labor | 2,920,000 | 2,836,000 | 84,000 |
| Pension | 518,000 | 468,000 | 50,000 |
| Investor relations | 167,000 | 137,000 | 30,000 |
| Purchased water | 272,000 | 290,000 | (18,000) |
| Utility costs | 923,000 | 988,000 | (65,000) |
| Property and liability insurance | 240,000 | 323,000 | (83,000) |
| Medical | 341,000 | 432,000 | (91,000) |
| Outside services | 207,000 | 458,000 | (251,000) |
| Other | 1,892,000 | 1,900,000 | (8,000) |
| Total | \$8,010,000 | \$8,090,000 | \$ (80,000) |

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- Operation and Maintenance expenses decreased approximately 1.0% due largely to cost containment efforts by our employees, including the following:
 - Outside services decreased by \$251,000 primarily due to a reduction in consulting, legal and temporary labor costs. The reduction in consulting is primarily due to training services provided prior to the launch of the Company's Enterprise Resource Planning (ERP) system early in 2010. Since the organizational review undertaken by the Company in the third quarter of 2010, the Company has reduced its use of temporary labor;
 - Property and liability insurance decreased \$83,000 in 2011 primarily due to cost reductions in our package and workers' compensation policies. The package policy, which covers our fleet of vehicles, decreased primarily to a reduction in our fleet levels. Workers' compensation decreased due to a reduction in headcount in the third quarter of 2010; and
 - Utility costs were down \$65,000 when compared to the same period of 2010 due principally to reduced electrical power costs. During 2010, the Company received lower rates on its electricity through new suppliers and improved efficiency at several of the Company's locations as a result of energy audits. To date, energy audits have been performed at many of our facilities and we expect to further improve efficiency.
 - Non-cost containment decreases to O&M expense include the following:
 - Medical costs decreased \$91,000 over the prior year primarily due to reimbursement payments received from our insurance administrator relating to a stop-loss provision in our agreement. The Company has individual claim and whole-year stop-loss coverage agreements which limit the Company's self-funded plan's exposure from large individual or cumulative claims.
 - The decreases described above were partially offset by the following:
 - Post retirement medical and Pension costs increased by a combined \$236,000 over 2010 levels primarily due to a decrease in the discount rate used to determine the future liabilities of the plans and to a decline in the market value of the plans' assets in prior years; and
 - Regulatory commission expense increased \$86,000 over prior year due to costs associated with the rate case filed in 2010. Per DPUC regulations, costs associated with general rate cases are captured on the balance sheet and amortized over an approved period. During 2010, costs associated with the 2006 rate case became fully amortized; and
 - Labor increased approximately \$84,000 when compared to 2010 primarily due to normal wage increases. Additionally, as the Company prepared to implement its ERP system during 2010, more employees were allocating their time to this large capital project. The Company expects that the Organization Review, described above, will provide savings in future periods related to Labor costs.
- The Company saw an approximate 11.4% increase in its Depreciation expense from 2010 to 2011. The primary driver of this increase was due to an increase in the Company's Utility Plant investment. A portion of the higher Utility Plant balance was related to the implementation of the Company's ERP system that went into service in the first quarter of 2010 which is depreciated at a higher rate than our typical water delivery infrastructure. The Company's prior ERP system was fully depreciated prior to the implementation of the new system.
- Income Tax expense associated with Water Activities increased to \$1,102,000 due to an increase in pre-tax income.

Commitments and Contingencies

There were no material changes under this subheading to any of the other items previously disclosed by the Company in its Annual Report on Form 10-K for the period ended December 31, 2010.

Forward-Looking Information

Certain statements made in this Form 10-Q, (“10-Q”) are 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 (“Exchange Act”) that are made based upon, among other things, our current assumptions, expectations and beliefs concerning future developments and their potential effect on us. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words “believes,” “expects,” “anticipates,” “plans,” “future,” “potential,” “probably,” “predictions,” “continue” or similar expressions. Forward-looking statements included in this 10-Q, include, but are not limited to, statements regarding:

- projected capital expenditures and related funding requirements;
 - the availability and cost of capital;
 - developments, trends and consolidation in the water and wastewater utility industries;
 - dividend payment projections;
- our ability to successfully acquire and integrate regulated water and wastewater systems, as well as unregulated businesses, that are complementary to our operations and the growth of our business;
 - the capacity of our water supplies, water facilities and wastewater facilities;
 - the impact of limited geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage per customer;
 - our capability to pursue rate increase requests on a timely successful basis;
 - our authority to carry on our business without unduly burdensome restrictions;
- our ability to maintain our operating costs at the lowest possible level, while providing good quality water service;
 - our ability to obtain fair market value for condemned assets;
 - the impact of fines and penalties;
- changes in laws, governmental regulations and policies, including environmental, health and water quality and public utility regulations and policies;
 - the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- our ability to successfully extend and expand our service contract work within our Service and Rentals Segment;
 - the development of new services and technologies by us or our competitors;
 - the availability of qualified personnel;
 - the condition of our assets;
 - the impact of legal proceedings;
 - general economic conditions;
- the profitability of our Real Estate Segment, which is subject to the amount of land we have available for sale and/or donation, the demand for any available land, the continuation of the current state tax benefits relating to the donation of land for open space purposes and regulatory and local government/town approvals for land dispositions; and
 - acquisition-related costs and synergies.

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Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- changes in general economic, business, credit and financial market conditions;
- changes in government regulations and policies, including environmental and public utility regulations and policies;
 - changes in environmental conditions, including those that result in water use restrictions;
 - unusual weather conditions;
 - increases in energy and fuel costs;
 - unfavorable changes to the federal and/or state tax codes;
 - significant changes in, or unanticipated, capital requirements;
- significant changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we have acquired or may acquire;
 - our ability to manage the expansion of our business;
- the extent to which we are able to develop and market new and improved services;
- the continued demand by telecommunication companies for antenna site leases on our property;
 - the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel;
 - labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements or the expansion of our operations;
 - increases in the costs of goods and services;
 - civil disturbance or terroristic threats or acts; and
 - changes in accounting pronouncements.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this 10-Q, the 2010 Annual Report on Form 10-K (“10-K”) and the documents that we incorporate by reference into the 10-K completely and with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent our assumptions, expectations and beliefs only as of the date of this 10-Q. Except for our ongoing obligations to disclose certain information under the federal securities laws, we are not obligated, and assume no obligation, to update these forward-looking statements, even though our situation may change in the future. For further information or other factors which could affect our financial results and such forward-looking statements, see Part I, Item 1A “Risk Factors” found in the 10-K. We qualify all of our forward-looking statements by these cautionary statements.

Part I, Item 3: Quantitative and Qualitative Disclosure About Market Risk

The primary market risk faced by the Company is interest rate risk. The Company has no exposure to derivative financial instruments or financial instruments with significant credit risk or off-balance-sheet risks. In addition, the Company is not subject, in any material respect, to any currency or other commodity risk.

The Company is subject to the risk of fluctuating interest rates in the normal course of business. The Company’s exposure to interest fluctuations is managed at the Company and subsidiary operations levels through the use of a combination of fixed rate long-term debt, variable long-term debt and short-term variable borrowings under financing arrangements entered into by the Company and its subsidiaries. The Company has \$40.0 million of variable rate lines of credit with three banks, under which the interim bank loans payable at March 31, 2011 were approximately \$26.3 million.

As of March 31, 2011, the Company had \$22.05 million of variable-rate long-term debt outstanding. Holding other variables constant, including levels of indebtedness, a one-percentage point change in interest rates would impact pre-tax earnings by approximately \$0.2 million, annually. The Company monitors its exposure to variable rate debt and will make future financing decisions as the need arises.

Part I, Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of March 31, 2011, management, including the Company's 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 Exchange Act Rule 13a-15(e)). Based upon, and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II, Item 1: Legal Proceedings

We are involved in various legal proceedings from time to time. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which we or any of our subsidiaries are a party or to which any of our properties is the subject that presents a reasonable likelihood of a material adverse impact on the Company.

Part II, Item 1A: Risk Factors

Information regarding risk factors appeared in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. There have been no material changes to our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Connecticut Water Service, Inc. and Subsidiaries

Part II, Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

No stock repurchases were made during the quarter ended March 31, 2011.

Part II, Item 6: Exhibits

| Exhibit Number | Description |
|-------------------|---|
| 3.1 | Certificate of Incorporation of Connecticut Water Service, Inc. amended and restated as of April, 1998. (Exhibit 3.1 to Form 10-K for the year ended 12/31/98). |
| 3.2 | By Laws, as amended, of Connecticut Water Service, Inc. as amended and restated as of August 12, 1999. (Exhibit 3.2 to Form 10-K for the year ended 12/31/99). |
| 3.3 | Certification of Incorporation of The Connecticut Water Company effective April, 1998. (Exhibit 3.3 to Form 10-K for the year ended 12/31/98). |
| 3.4 | Certificate of Amendment to the Certificate of Incorporation of Connecticut Water Service, Inc. dated August 6, 2001 (Exhibit 3.4 to Form 10-K for the year ended 12/31/01). |
| 3.5 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Connecticut Water Service, Inc. dated April 23, 2004. (Exhibit 3.5 to Form 10-Q for the quarter ended March 31, 2003). |
| 10.1 | * Nonstandardized Adoption Agreement Prototype Cash or Deferred Profit-Sharing Plan, effective as of January 1, 2010. |
| 31.1 | * Rule 13a-14 Certification of Eric W. Thornburg, Chief Executive Officer. |
| 31.2 | * Rule 13a-14 Certification of David C. Benoit, Chief Financial Officer. |
| 32 | Certification of Eric W. Thornburg, Chief Executive Officer, and David C. Benoit, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* filed herewith

** furnished herewith

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.

Connecticut Water Service, Inc.
(Registrant)

Date: May 6, 2011

By: /s/ David C. Benoit

David C. Benoit
Vice President – Finance and
Chief Financial Officer

Date: May 6, 2011

By: /s/ Nicholas A. Rinaldi

Nicholas A. Rinaldi
Controller

