ARTESIAN RESOURCES CORP
Form 10-Q
May 03, 2004

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

FORM 10 - Q

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

For the quarterly period ended March 31, 2004

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 0-18516

ARTESIAN RESOURCES CORPORATION
(exact name of registrant as specified in its charter)

State or other jurisdiction of incorporation or organization:	DELAWARE
I.R.S. Employer Identification Number:	51-0002090
Address of principal executive officers:	664 CHURCHMANS ROAD NEWARK, DELAWARE 19702
Registrant's telephone number, including area code:	(302) 453 - 6900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Exchange Act.

[X] Yes [ ] No

As of April 19, 2004, 3,332,245 shares of Class A Non-Voting Common Stock and 587,680 shares of Class B Common Stock were outstanding.

ARTESIAN RESOURCES CORPORATION
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PART I - FINANCIAL INFORMATION
ITEM I - FINANCIAL STATEMENTS

ARTESIAN RESOURCES CORPORATION
CONSOLIDATED BALANCE SHEET
(In thousands)

	(Unaudited) March 31, 2004
ASSETS	
Utility plant, at original cost less accumulated depreciation	$ 196,010
Current assets	
Cash and cash equivalents	1,580
Accounts receivable, net	2,489

Income tax receivable	404
Unbilled operating revenues	2,365
Materials and supplies-at cost on FIFO basis	768
Prepaid property taxes	355
Prepaid expenses and other	617
	8,578
Other assets	
Non-utility property (less accumulated depreciation 2004-$79; 2003-$78)	351
Restricted cash	10,729
Other deferred assets	2,772
	13,852
Regulatory assets, net	2,066
	$ 220,506
LIABILITIES AND STOCKHOLDERS' EQUITY	
Stockholders' equity	
Common stock	$ 3,918
Additional paid-in capital	41,410
Retained earnings	7,553
Total stockholders' equity	52,881
Long-term debt, net of current portion	81,328
	134,209
Current liabilities	
Notes payable	11,711
Current portion of long-term debt	266
Current portion of mandatorily redeemable preferred stock	---
Accounts payable	4,588
Overdraft payable	2,445
Deferred income taxes	141
Interest accrued	400
Customer deposits	435
Other	1,020
	21,006
Deferred credits and other liabilities	
Net advances for construction	19,859
Postretirement benefit obligation	1,217
Deferred investment tax credits	836
Deferred income taxes	12,476
	34,388
Commitments and contingencies	
Net contributions in aid of construction	30,903
	$ 220,506

See notes to the consolidated financial statements.

ARTESIAN RESOURCES CORPORATION
CONSOLIDATED STATEMENT OF INCOME
Unaudited
(In thousands, except per share amounts)

	For th Ended	
	2004	
OPERATING REVENUES		
Water sales	$ 8,466	
Other utility operating revenue	199	
Non-utility revenue	122	
	8,787	
OPERATING EXPENSES		
Utility operating expenses	4,983	
Related party expenses	---	
Non-utility operating expenses	74	
Depreciation and amortization	924	
State and federal income taxes	471	
Property and other taxes	529	
	6,981	
OPERATING INCOME	1,806	
Allowance for funds used during construction	92	
Other income, net	277	
INCOME BEFORE INTEREST CHARGES	2,175	
INTEREST CHARGES	1,457	
NET INCOME	718	
PREFERRED DIVIDEND REQUIREMENT AND REDEMPTION PREMIUM	3	
NET INCOME APPLICABLE TO COMMON STOCK	$ 715	
INCOME PER COMMON SHARE:		
Basic	$ 0.18	
Diluted	$ 0.18	
CASH DIVIDEND PER COMMON SHARE	$ 0.2025	
AVERAGE COMMON SHARES OUTSTANDING:		
Basic	3,917	
Diluted	4,053	

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Unaudited
(In thousands)

	For End 2004
Balance, beginning of period	$ 7,630
Net income	718
	8,348
Less: Dividends	795
Common stock-Repurchase	---
Balance, end of period	$ 7,553

See notes to the consolidated financial statements.

ARTESIAN RESOURCES CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited
(In thousands)

	For End 2004
CASH FLOWS FROM OPERATING ACTIVITIES	
NET INCOME	$ 718
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	923
Deferred income taxes, net	623
Allowance for funds used during construction	(92)
Changes in assets and liabilities:	
Accounts receivable	(81)
Income tax receivable	437
Unbilled operating revenue	380
Materials and supplies	33
Accrued state and federal income taxes	--
Prepaid property taxes	356
Prepaid expenses and other	(40)
Other deferred assets	(227)
Regulatory assets	56
Postretirement benefit obligation	(15)
Accounts payable	637
Interest accrued	133
Customer deposits and other, net	335
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,176
CASH FLOWS FROM INVESTING ACTIVITIES	

Capital expenditures (net of AFUDC)	(9,111)
Proceeds from sale of assets	9
NET CASH USED IN INVESTING ACTIVITIES	(9,102)

CASH FLOW FROM FINANCING ACTIVITIES	
Net borrowings (repayments) under line of credit agreement	(788)
Proceeds from issuance of long-term debt	770
Proceeds from issuance of tax-free bonds	3,490
Overdraft payable	1,108
Net advances and contributions in aid of construction	1,348
Net proceeds (repayments) under promissory notes and SRF Loans	78
Net proceeds from stock transactions	267
Dividends	(795)
Repayment of long-term debt	--
Retirement of preferred stock	(100)
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,378
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	452
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,128
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,580
Supplemental Disclosures of Cash Flow Information:	
Interest paid	$ 1,304
Income taxes paid	$ --

See notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

Artesian Resources Corporation ("Artesian Resources" or the "Company") operates as a holding company, whose income is derived from the earnings of our four wholly owned subsidiary companies and our one-third interest in AquaStructure Delaware, L.L.C., a Limited Liability Corporation whose primary activity is marketing wastewater services. Artesian Water Company, Inc. ("Artesian Water"), our principal subsidiary, is the oldest and largest public water utility in the State of Delaware and has been providing water service within the state since

1905. We distribute and sell water to residential, commercial, industrial, governmental, municipal and utility customers throughout Delaware. In addition, we provide services to other water utilities, including operations and billing functions, and have contract operation agreements with fourteen private and municipal water providers.

Our other water utility subsidiary, Artesian Water Pennsylvania, Inc., began operations in 2002, providing water service to a residential community, consisting of 41 homes, in Chester County, Pennsylvania. Our other two subsidiaries, neither of which is regulated, are Artesian Wastewater Management, Inc. ("Artesian Wastewater"), which provides wastewater services in Delaware, and Artesian Development Corporation, whose sole activity is the ownership of an eleven-acre parcel of land zoned for office buildings located immediately adjacent to our corporate headquarters. On October 14, 2003, we filed an application with the Pennsylvania Public Utilities Commission to increase our service area in Pennsylvania. The application concerns four specific housing developments that are expected to add 350 customers over 10 years to the extent our application is approved.

The terms "we", "our" and the "Company" as used herein refer to Artesian Resources and its subsidiaries.

Stock Compensation Plans

At March 31, 2004, the Company had three stock-based compensation plans. The Company applies APB Opinion No. 25 and related interpretations in accounting for compensation expense under its plans. Accordingly, the aggregate compensation cost that has been charged against income for the three plans was $1,200 and $1,100 for the three months ended March 31, 2004 and 2003, respectively. Had compensation cost for the Company's three plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," the Company's net income and net income per common share would have been reduced to the pro-forma amounts indicated below:

	For the Quarter Ended March 31,	
	2004	2003
In thousands, except per share data		
NET INCOME APPLICABLE TO COMMON STOCK		
As reported	$ 715	$ 708
Add: compensation expense included in net income (net of tax)	--	--
Deduct: compensation expense using fair value based method (net of tax)	(1)	(24)
Pro-forma	$ 714	$ 684
BASIC NET INCOME PER COMMON SHARE		
As reported	$ .18	$ .18
Pro-forma	$ .18	$ .18
DILUTED NET INCOME PER COMMON SHARE		
As reported	$ .18	$ .18
Pro-forma	$ .18	$ .17

NOTE 2 - REGULATORY ASSETS

Certain expenses are recoverable through rates charged to our customers, without a return on investment, and are deferred and amortized during future periods

using various methods as permitted by the Delaware Public Service Commission ("Delaware PSC"). Expenses related to applications to increase rates are amortized on a straight-line basis over a period of two years. The postretirement benefit obligation, which is being amortized over 20 years, is adjusted for the difference between the net periodic postretirement benefit costs and the cash payments. The deferred income taxes will be amortized over future years as the tax effects of temporary differences previously flowed through to the customers reverse. Regulatory assets net of amortization, are comprised of the following:

	March 31, 2004	December 31, 2003
	(in thousands)	
Postretirement benefit obligation	$ 1,217	$ 1,232
Deferred income taxes recoverable in future rates	623	627
Expense of rate proceedings	112	220
Other	114	44
	$ 2,066	$ 2,123

Expenses related to the Net Periodic Pension Cost for the postretirement benefit obligation are as follows:

FOR THE QUARTER ENDED MARCH 31,	2004	2003
NET PERIODIC PENSION COST		
Interest Cost	$ 14	$ 16
Amortization of Net (Gain) or Loss	(9)	(14)
Amortization of Transition Obligation/(Asset)	2	2
Total FAS 106 Net Periodic Benefit Cost	7	4
Total Net Periodic Benefit Cost	$ 7	$ 4

CONTRIBUTIONS

Artesian Water contributed $22,000 to its postretirement benefit plan in the first quarter of 2004 and expects to contribute another $66,000 for the remainder of the year.

NOTE 3 - RELATED PARTY TRANSACTIONS

The office building and shop complex utilized by Artesian Water were previously leased at an average annual rental of $173,000 from the former limited partners of White Clay Realty, who owned the property jointly as tenants in common. Dian C. Taylor, Chair and Chief Executive Officer of Artesian Resources, was a tenant in common and John R. Eisenbrey, Jr., a director of Artesian Resources, was a beneficiary of a tenant in common. The rental of $173,000 was below market rates. In December 2002, Artesian Water filed a condemnation action in the Delaware Superior Court, seeking to acquire title to the office and shop complex leased by Artesian Water, known as 664 Churchmans Road, Newark, Delaware (the "Property"). Artesian Water filed this action under its statutory power of eminent domain against the owner of the Property, White Clay Realty, a Delaware Limited Partnership, and each of the limited partners. The Superior Court ruled that since White Clay Realty had no general partner, the partnership was dissolved and all of the former partners owned the Property jointly as tenants in common. A special committee of the Board of Directors of Artesian Water, composed entirely of outside directors who had no ownership interest in the

Property, made the determination to purchase the Property through the condemnation procedures. Under this procedure, if the acquisition of the Property were to be approved by the court, the fair market value of the Property would be determined by a panel of commissioners after an evidentiary hearing.

Artesian Water's independent appraiser valued the Property to be worth $3,800,000. In December 2002, Artesian Water issued a payment to the Prothonotary for the State of Delaware for $3,800,000. As the court delayed payment until the matter was decided, the amount was refunded to Artesian Water in June 2003. Until a final determination of the condemnation, the parties agreed that Artesian Water could continue to occupy the Property under the terms of the lease with a quarterly rental payment of $43,361. Pursuant to a deadline set by the Superior Court, the owners of the Property submitted an independent appraisal that valued the Property to be worth $4,800,000. The condemnation case was scheduled for trial on October 20, 2003, wherein the fair market value of the Property would have been determined by a panel of three Commissioners after an evidentiary hearing. Prior to the commencement of the trial on October 20, 2003, all parties agreed to settle the case for a purchase price of $4,500,000 paid by Artesian Water. The decision to settle on the part of Artesian Water was made by the Special Committee of independent directors and with the recommendation of special counsel to the Special Committee. The settlement was approved by order of the Superior Court on October 20, 2003. The Court also approved applications of two of the tenants in common (neither of whom is an officer or director of Artesian) for their expenses, totaling $50,000, to be paid by Artesian Water, to which applications Artesian Water did not object.

Expenses associated with related party transactions were as follows:

	For the Quarter Ended March 31,	
	2004	2003
	(in thousands)	
White Clay Realty	$ ---	$ 43

NOTE 4 - NET INCOME PER COMMON SHARE AND EQUITY PER COMMON SHARE

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and the potentially dilutive effect of employee stock options. The following table summarizes the shares used in computing basic and diluted net income per share:

	For the Quarter Ended March 31,	
	2004	2003
	(in thousands)	
Average common shares outstanding during the period for Basic computation	3,917	3,866
Dilutive effect of employee stock options	136	87
Average common shares outstanding during the period for Diluted computation	4,053	3,953

Equity per common share was $13.50 and $13.24 at March 31, 2004 and 2003, respectively. These amounts were computed by dividing common stockholders'

equity, excluding preferred stock, by the number of shares of common stock outstanding on March 31, 2004 and 2003, respectively.

NOTE 5 - IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In December 2003, the FASB issued revised Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits-an amendment of FASB Statements No. 87, 88, and 106." This statement requires additional disclosures to those in the original Statement No. 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined pension plans and other defined benefit postretirement plans. Disclosures for earlier periods presented for comparative purposes are restated. This statement is effective for financial statements with fiscal years ending after December 15, 2003. The additional disclosures required for our postretirement benefit obligation are presented in Note 2.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement is effective for financial instruments entered into or modified after May 31, 2003 and effective for other instruments beginning at the first interim period beginning after June 15, 2003. The adoption of this statement did not have a material impact on the financial condition or results of operation of Artesian Resources.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting related to derivatives and hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for contracts entered into or modified, and hedging relationships designated, after June 30, 2003. The adoption of this statement did not have a material impact on the financial condition or results of operation of Artesian Resources.

NOTE 6 - RATE PROCEEDINGS

On February 5, 2004, Artesian Water filed a petition with the Delaware Public Service Commission (the "Delaware PSC") to implement new rates to meet a requested increase in revenue of 24%, or approximately $8.8 million on an annualized basis. The Delaware PSC, on March 16, 2004, suspended the implementation of the proposed new rates pending further investigation and public evidentiary hearings. Pending these hearings and a final ruling by the Delaware PSC, the Company, as permitted by law, placed a portion of the proposed rates into effect under bond on April 6, 2004. These temporary rates were designed to generate an increase in annual operating revenue of approximately 6.98%, or $2.5 million on an annualized basis.

On April 2, 2002, Artesian Water filed a petition with the Delaware PSC seeking to raise rates for water service by 23.12% or $7.5 million. Artesian Water, as permitted by law, placed 7.71% of the proposed rates into effect under bond beginning June 1, 2002. Beginning December 3, 2002, Artesian Water, as permitted by law, placed an additional 3.69% of the proposed rates into effect. On April 15, 2003, the Delaware PSC issued PSC Order No. 6147 approving an increase in Artesian Water's revenue requirement of 9.68% effective May 1, 2003. These rates represented an increase in water consumption charges, customer charges, and fire hydrant ready-to-serve charges necessary to generate an increase in annual operating revenues of approximately $3.3 million. Since the temporary rates that we had placed into effect beginning December 3, 2002, were in excess of the final approved rate increase, in June 2003 we refunded approximately $201,000, plus interest, to our customers. Since Artesian Water had reserved revenue related to the second temporary increase of $234,000, an additional $33,000 was recorded to revenue in the second quarter of 2003.

Delaware statute permits water utilities to put into effect, on a semi-annual basis, increases related to specific types of distribution system improvements through a Distribution System Improvement Charge (DSIC). This charge is available to water utilities to be implemented between general rate increase applications that normally recognize changes in a water utility's overall financial position. The DSIC process significantly reduces expenses when compared to those typically associated with general rate increase requests. We requested on November 30, 2003, and subsequently implemented, a 1.13% DSIC surcharge for bills rendered subsequent to January 1, 2004. This surcharge was designed to generate approximately $204,000 in revenues between January and June of 2004. However, as we placed temporary rates into effect on April 6, 2004, the surcharge was reset to zero as required by law. We billed $100,000 in revenues through March 31, 2004.

NOTE 7 - STOCK SPLIT

On June 30, 2003, the Company completed a three for two stock split on its Class A Non-Voting Common Stock and Class B Common Stock, which was effected in the form of a 50% stock dividend. Shareholders of record on May 30, 2003 received one additional share of common stock for each two shares held. All share and per share data for all prior periods have been restated to give effect to this stock split.

Weighted Average Shares Outstanding	For the Quarter Ended March 31,	
	2004	2003
Basic	3,917,034	3,866,072
Diluted	4,053,117	3,952,821

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE PERIOD ENDED MARCH 31, 2004

Overview

STRATEGIC DIRECTION

Our profitability is primarily attributable to the sale of water by Artesian Water, the amount of which is dependent on seasonal fluctuations in weather, particularly during the summer months when water demand may vary with rainfall and temperature. In the event that temperatures during the typically warmer months are cooler than expected, or rainfall is greater than typical, the demand for water may decrease and our revenues may be adversely affected. We believe the effects of weather are short term and do not materially affect the execution of our strategic initiatives.

While customer growth in our utility subsidiaries has been a major focus in the first quarter of 2004, we are aggressively seeking opportunities that produce revenue streams that are not as directly affected by weather. These opportunities include wastewater treatment services by Artesian Wastewater Management, Inc., a non-regulated subsidiary. Artesian Wastewater is actively pursuing design, build and operations contracts with residential developers in Sussex County, Delaware. Artesian Wastewater has a permit pending to construct a 90,300 gallon per day facility to service a residential development in Sussex County. The development is planned to add 750 customers over the next 10 years. In addition, we will continue to focus attention on expanding our contract operations opportunities with municipalities and private water providers in Delaware and surrounding areas.

Ensuring our customers have a dependable supply of safe, high-quality water has been, and will continue to be, a high priority. We have invested $2.8 million through March 31, 2004, and expect to make $5.4 million in investments in the remaining nine months of 2004, that will increase our sources of water and enhance our ability to deliver supply from our Aquifer Storage and Recovery Program. We are the first and only water utility in Delaware to utilize this technology that capitalizes on Delaware's unique geology to provide storage capacity for water to be used during periods of peak water demand.

REGULATORY MATTERS AND INFLATION

As of March 31, 2004, we had approximately 70,000 metered customers and serviced a population of approximately 230,000, representing approximately 29% of Delaware's total population. The Delaware PSC regulates Artesian Water's rates charged for water service, the sale and issuance of securities and other matters. We periodically seek rate increases to cover the cost of increased operating expenses, increased financing expenses due to additional investments in utility plant and other costs of doing business. In Delaware, utilities are permitted by law to place rates into effect, under bond, on a temporary basis pending completion of a rate increase proceeding. The first temporary increase may be up to the lesser of $2.5 million on an annual basis or 15% of annual gross water sales. Should the rate case not be completed within seven months, by law, the utility may put the entire requested rate relief in effect, under bond, until a final resolution is ordered and placed into effect. If such rates are found to be in excess of rates the Delaware PSC finds to be appropriate, the utility must refund the portion found in excess to customers with interest. The timing of our rate increase requests are therefore dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase. We can provide no assurances that rate increase requests will be approved by applicable regulatory agencies; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increase.

We are affected by inflation, most notably by the continually increasing costs required to maintain, improve and expand our service capability. The cumulative effect of inflation results in significantly higher facility costs compared to investments made 20 to 40 years ago, which must be recovered from future cash flows.

Delaware statute permits water utilities to put into effect, on a semi-annual basis, increases related to specific types of distribution system improvements through a Distribution System Improvement Charge (DSIC). This charge is available to water utilities to be implemented between general rate increase applications that normally recognize changes in a water utility's overall financial position. The DSIC process significantly reduces expenses when compared to those typically associated with general rate increase requests. We requested on November 30, 2003 and subsequently implemented a 1.13% DSIC surcharge for bills rendered subsequent to January 1, 2004. This surcharge was designed to generate approximately $204,000 in revenues between January and June of 2004. However, as we placed temporary rates into effect on April 6, 2004, the surcharge was reset to zero as required by law. We billed $100,000 in revenues under this surcharge through March 31, 2004.

Operating Revenues

Revenues totaled $8.8 million for the quarter ended March 31, 2004, $0.3 million, or 2.9% above revenues for the quarter ended March 31, 2003 of $8.5 million. Water sales revenues increased 2.5% for the quarter ended March 31, 2004 over the corresponding period in 2003 due to customer growth. The remaining increase in operating revenues for the three months ended March 31, 2004 is primarily due to additional revenues generated by wastewater and contract operations services. We realized 96.4% of our total revenue for the three months ended March 31, 2004, from the sale of water.

On February 5, 2004, Artesian Water filed a petition with the Delaware PSC to implement new rates to meet a requested increase in revenue of 24%, or approximately $8.8 million on an annualized basis. The Delaware PSC, on March 16, 2004, suspended the implementation of the proposed new rates pending further investigation and public evidentiary hearings. Pending these hearings and a final ruling by the Delaware PSC, the Company, as permitted by law, placed a portion of the proposed rates into effect under bond on April 6, 2004. These temporary rates were designed to generate an increase in annual operating revenue of approximately 6.98%, or $2.5 million on an annualized basis.

On April 2, 2002, Artesian Water filed a petition with the Delaware PSC seeking to raise rates for water service. Artesian Water, as permitted by law, placed 7.71% of the proposed rates into effect under bond beginning June 1, 2002. Beginning December 3, 2002, Artesian Water placed an additional 3.69% of the proposed rates into effect. On April 15, 2003, the Delaware PSC approved an increase in Artesian Water's revenue requirement of 9.68%, effective May 1, 2003. See Note 6 of our financial statements included in this report for additional discussion.

Operating Expenses

Operating expenses, excluding depreciation and taxes, increased $227,000, or 4.7%, to $5.6 million for the quarter ended March 31, 2004, compared to $4.8 million for the same period in 2003. The components of the increase in operating expenses included an increase in repair and maintenance expense of $71,000, or 26.2%, due to the replacement of the filter media used in a new water treatment process at one of our facilities. We expect to replace this media annually and have requested recovery of this on-going expense in rate charges to customers. Employee benefits expense also increased $62,000, or 13%, due to an increase in medical insurance premiums effective August 2003. Administration expenses increased approximately $88,000 for the quarter ended March 31, 2004, or 12.3%, due primarily to the reimbursement of consulting expenses incurred by the PSC in connection with the review of supply conditions during 2002. The investigation confirmed that our supply was adequate to meet uninterrupted demand during this drought period. Additional expense of $27,000 was incurred in the first quarter of 2004 as a result of costs associated with our Pennsylvania subsidiary's request for new service territory described in Note 1 to the financial statements included in this report. These increases were partially offset by a reduction of $43,000 in related party expense due to our purchase of the office

and shop complex in October 2003 which we had previously leased from White Clay Realty. Purchased water expense decreased approximately $85,000, or 11.1%, due to a later start in storing water in our aquifer storage and recovery well in the current year. The ratio of operating expense, excluding depreciation and taxes, to total revenue was 57.5% for the three months ended March 31, 2004, compared to 56.6% for the three months ended March 31, 2003.

Depreciation and amortization expense increased $77,000, or 9.1%, over the quarter ended March 31, 2003 to $924,000 due to increases in our utility plant in service providing supply, treatment, storage and distribution of water. Income tax expense decreased $28,000 due to reduced profitability for the quarter ended March 31, 2004 compared to the quarter ended March 31, 2003.

Other Income

Other Income increased $248,000 primarily due to increased patronage income from CoBank. This increase in patronage income is related to the Company's issuance of an additional $25 million in First Mortgage Bonds in January 2003 to CoBank, which is a cooperative bank that distributes equity and cash income to its customer-owners.

Interest Charges

Interest charges increased $302,000, or 26.2%, over the quarter ended March 31, 2003, primarily due to interest related to the $25 million Series P First Mortgage Bond issued on January 31, 2003 and the $15.4 million Series Q First Mortgage Bond issued on December 1, 2003. The Series P Bond issuance replaced the Series L 8.03% $10 million bond and paid down our line of credit.

Net Income

Our net income decreased $54,000 for the quarter ended March 31, 2004, compared to the same period a year ago. The decrease in net income for the quarter was due to increased operating expenses discussed above and interest charges associated with the issuance of debt to finance additions to utility plant. Our net income applicable to common stock increased by $7,000 as redemption premium costs of $54,000 associated with the buy-back of all 10,868 shares of our 7% Prior Preferred Stock on February 21, 2003 were reflected in the quarter ended March 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity for the three months ended March 31, 2004 were $4.2 million provided by cash flow from operating activities and $5.4 million from financing activities, which includes $1.3 million in contributions and advances. Cash flow from operating activities is primarily provided by our utility operations, and is impacted by the timeliness and adequacy of rate increases and changes in water consumption as a result of year-to-year variations in weather conditions particularly during the summer. A significant part of our ability to maintain and meet our financial objectives is to assure our investments in utility plant and equipment are recovered in the rates charged to customers. As such, from time to time we file rate increase requests to recover increases in operating expenses and investments in utility plant and equipment. On February 5, 2004, Artesian Water filed a petition with the Delaware PSC seeking to raise rates for water service and on April 6, 2004, the Delaware PSC approved a temporary increase in Artesian Water's revenue requirement of 6.98% as permitted by law. These rates represent an increase in water consumption charges, customer charges and fire hydrant ready-to-serve charges necessary to generate an increase in annual operating revenues of approximately $2.5 million.

At March 31, 2004, Artesian Water had lines of credit with three separate financial institutions totaling $35.0 million to meet its temporary cash requirements. These revolving credit facilities are unsecured. As of March 31, 2004, we had $23.3 million of available funds under these lines. The interest rate for borrowings under each of these lines is the London Interbank Offering Rate plus 1.0% or, at our discretion, the bank's federal funds rate plus 1.0%. At March 31, 2004 the rate on these lines was 2.04%. All the facilities are reviewed annually by each bank for renewal. We expect that our available cash balances, our projected cash generated from operations and available bank credit lines will be sufficient to meet our financial obligations for the next twelve months.

CAUTIONARY STATEMENT

Statements in this Quarterly Report on Form 10-Q which express our "belief," "anticipation" or "expectation," as well as other statements which are not historical fact including statements regarding our customer growth, contract operations opportunities, investment plans in 2004, revenues from temporary rate increases, plans to increase our wastewater treatment operations and other revenue streams less affected by weather, the acquisition of a dependable supply of safe, high-quality water and our ability to obtain final approval on pending rate increase requests or approval to service additional service territories are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties that could cause actual results to differ materially from those projected. Certain factors, such as changes in weather, changes in our contractual obligations, changes in government policies, changes in economic conditions, and other matters could cause results to differ materially from those in the forward-looking statements. The Company does not undertake to update any of the forward-looking statements included in the Quarterly Report on Form 10-Q except as required by law.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate, long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of our First Mortgage Bonds, which have maturity dates ranging from 2007 to 2043.

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

The Company adopted a code of conduct applicable to its employees which is available upon request.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

There are no material legal proceedings pending at this date.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3.1 Restated Certificate of Incorporation of the Company effective April 28, 2004.

3.3 Artesian Resources Corporation By-laws

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Forms 8-K

A current report on Form 8-K dated February 5, 2004 was filed with the Securities and Exchange Commission on February 6, 2004 reporting a filing of a petition with the Delaware PSC to increase rates for service.

SIGNATURES

ARTESIAN RESOURCES CORPORATION

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: April 28, 2004 By: /s/ David B. Spacht

David B. Spacht, Vice President, Chief Financial Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report

has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Principal Executive Officer:		
/s/ Dian C. Taylor Dian C. Taylor	President, Chief Executive Officer and Director	April 28, 20
Principal Financial and Accounting Officer:		
/s/ David B. Spacht David B. Spacht	Vice President, Chief Financial Officer and Treasurer	April 28, 20
Directors:		
/s/ Norman H. Taylor, Jr. Norman H. Taylor, Jr.	Director	April 28, 20
/s/ Kenneth R. Biederman Kenneth R. Biederman	Director	April 28, 20
/s/ William C. Wyer William C. Wyer	Director	April 28, 20
/s/ John R. Eisenbrey, Jr. John R. Eisenbrey, Jr.	Director	April 28, 20

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