CONNECTICUT WATER SERVICE INC / CT
Form 10-K
March 31, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
Form 10-K

þ **Annual Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005**

or

o **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)

Registrant s telephone number, including area code **(860) 669-8636**
Registrant s website: www.ctwater.com
Securities registered pursuant to Section 12 (b) of the Act:

Title of each Class	Name of each exchange on which registered
None	**Not applicable**

Securities registered pursuant to Section 12 (g) of the Act:
Common Stock, without par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes o No þ

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 twelve (12) months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K, (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

As of June 30, 2005, the aggregate market value of the registrant s voting Common Stock held by non-affiliates of the registrant was $200,641,536 based on the closing sale price as reported on the NASDAQ.

Number of shares of Common Stock, no par value, outstanding as of March 1, 2006 was 8,127,276, excluding 55,536 common stock equivalent shares.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K Into Which Document is Incorporated
Definitive Proxy Statement, dated on or about April 7, 2006, for Annual Meeting of Shareholders to be held on May 11, 2006.	Part III

INDEX TO ANNUAL REPORT ON FORM 10-K
Year Ended December 31, 2005

Table of Contents

This Form 10-K contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements should be read in conjunction with the risk factors described in Item 1A below and the cautionary statements included in this Form 10-K in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the heading Forward Looking Information .

PART I

ITEM 1. BUSINESS

The Company

The Registrant, Connecticut Water Service, Inc. (referred to as the Company , we or our) was organized in 1956. Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from the earnings of its ten wholly-owned subsidiary companies. In 2005, approximately 88% of the Company s earnings from continuing operations were attributable to water activities carried out within its three Connecticut regulated water companies: The Connecticut Water Company (Connecticut Water), The Crystal Water Company of Danielson (Crystal), and The Unionville Water Company (Unionville). These three companies supply water to 81,763 customers in 41 towns throughout Connecticut. Each of these companies is subject to state regulation regarding financial issues, rates, and operating issues, and to various other state and federal regulatory agencies concerning water quality and environmental standards. In addition to its regulated utilities, the Company owns seven unregulated companies: Chester Realty, Inc., a real estate company in Connecticut; New England Water Utility Services, Inc., which provides contract water and sewer operations and other water related services; Connecticut Water Emergency Services, Inc., a provider of drinking water by tanker truck; Crystal Water Utilities Corporation, a holding company which owns Crystal Water and three small rental properties; BARLACO Inc. (BARLACO), a real estate company in Massachusetts; The Barnstable Holding Company, a holding company which owns Barnstable Water and BARLACO and The Barnstable Water Company (Barnstable Water), a company that was a public service company until its assets were sold to the Town of Barnstable in 2005. As a result of the sale of the assets of Barnstable Water, results of its operations have been classified as discontinued operations. In 2005, these unregulated companies, in conjunction with the regulated water companies, contributed the remaining 12% of the Company s earnings from continuing operations through real estate transactions as well as services and rentals.

Our mission is to provide high quality water service to our customers at a fair return to our stockholders while maintaining a work environment that attracts, retains and motivates our employees to achieve a high level of performance.

Our corporate headquarters are located at 93 West Main Street, Clinton, Connecticut 06413. Our telephone number is 860.669.8636, and our Internet address is www.ctwater.com.

At this time, the Company has applied in February 2006 (Docket 06-02-02) to the Connecticut Department of Public Utility Control (DPUC), to merge all of its Connecticut-based, regulated utilities with and into Connecticut Water. On March 20, 2006, the DPUC issued a Draft Decision which would approve this merger. If, and when, these combinations are completed, the resulting entity, Connecticut Water, would consist of the current subsidiaries Crystal, Unionville, and Connecticut Water. It is expected that future rate relief applications would propose rate

Table of Contents

equalization steps, which, if approved would result, over time, in equalized rates for the Company s customers in Connecticut. The Company believes it is likely that it will apply for a rate increase for Connecticut Water, after the completion of the merger, during the summer of 2006.

The Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and all amendments to these documents will be made available free of charge through the INVESTOR INFO (SEC Filings) section of the Company s Internet website (http://www.ctwater.com) as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the SEC). The following documents are also available through the CORPORATE GOVERNANCE section of our website:

- Code of Conduct Board of Directors
- Code of Conduct Employees
- Audit Committee Charter
- Compensation Committee Charter
- Corporate Governance Committee Charter

Copies of each of the Company s SEC filings (without exhibits) and corporate governance documents mentioned above will also be mailed to investors, upon request by contacting the Company s Corporate Secretary at Connecticut Water, 93 West Main Street, Clinton, CT 06413.

Our Regulated Business

Our business is subject to seasonal fluctuations and weather variations. The demand for water is generally greater during the warmer months than the cooler months due to customers high water consumption related to cooling systems and various outdoor uses such as private and public swimming pools and lawn sprinklers. Demand will vary with rainfall and temperature levels from year to year and season to season, particularly during the warmer months.

In general, the profitability of the water utility industry is largely dependent on the timeliness and adequacy of rates allowed by utility regulatory commissions. In addition, profitability is affected by numerous factors over which we have little or no control, such as costs to comply with security, environmental, and water quality regulations. Inflation and other factors also impact costs for construction, materials and personnel related expenses.

Costs to comply with environmental and water quality regulations are substantial. Since the 1974 enactment of the Safe Drinking Water Act, we have spent approximately $55,823,000 in constructing facilities and conducting aquifer mapping necessary to comply with the requirements of the Safe Drinking Water Act, and other federal and state regulations, of which $6,109,000 was expended in the last five years. We are presently in compliance with current regulations, but the regulations are subject to change at any time. The costs to comply with future changes in state or federal regulations, which could require us to modify existing filtration facilities and/or construct new ones, or to replace any reduction of the safe yield from any of our current sources of supply, could be substantial.

Our water companies derive their rights and franchises to operate from special state acts that are subject to alteration, amendment or repeal and do not grant us exclusive rights to our service areas. Our franchises are free from burdensome restrictions, are unlimited as to time, and authorize us to sell potable water in all the towns we now serve. There is the possibility that the State of Connecticut could attempt to revoke our franchises and allow a governmental entity to take over some or all of our systems. While we would vigorously oppose any such attempts, from time to time such legislation is contemplated.

The rates we charge our water customers are established under the jurisdiction of and are approved by a state regulatory agency. It is our policy to seek rate relief as necessary to enable us to achieve an adequate rate of return. The following table shows information related to each of our water companies most recent general rate filing.

	Year of Last Rate Decision	Allowed Return on Equity	Allowed Return on Rate Base
Connecticut Water	1991	12.7%	10.74%
Crystal	2005	10.0%	7.55%
Unionville	1999**	12.35%	N/A*

* *Unionville s rates were based on a return on equity methodology, not a rate base methodology.*

** *Beginning mid-2003, Unionville began imposing a 30% surcharge on its customers water bills to recover financing and operating costs related to the construction and use of a water interconnection with a neighboring water supplier. Annually the surcharge is* *subject to a retroactive refund to ratepayers if total revenue for Unionville exceeds certain stipulated amounts. To date, we have not been required to provide any such refunds.*

Our Water Systems

Our water infrastructure consists of 28 noncontiguous water systems in the State of Connecticut. Our system, in total, consists of approximately 1,300 miles of water main and reservoir storage capacity of 7.0 billion gallons. The safe, dependable yield from our 119 active wells and 18 reservoirs is approximately 49 million gallons per day. Water sources vary among the individual systems, but overall approximately 35% of the total dependable yield comes from reservoirs and 65% from wells.

We supply water, and in most cases, fire protection to all or portions of 41 towns in Connecticut. The following table lists the customer count, operating revenues and customer water consumption for each of our water companies as of December 31, 2005.

Water Company	Number of customers	Water Revenues ($000 s)	Customer Water Consumption (millions of gallons)
Connecticut Water	70,714	$ 41,537	6,042
Crystal	5,050	2,778	542
Unionville	5,999	3,138	692
Total	81,763	$ 47,453	7,276

The following table breaks down the above total figures by customer class:

Customer Class	Number of customers	Water Revenues ($000 s)	Customer Water Consumption (millions of gallons)
Residential	72,968	$ 29,980	5,260
Commercial	5,333	5,619	1,188
Industrial	428	1,538	423
Public Authority	580	1,625	405
Fire Protection	1,526	8,267	0
Other (including non-metered accounts)	928	424	0
Total	81,763	$ 47,453	7,276

Our water companies own various small, discrete parcels of land that are no longer required for water supply purposes. At December 31, 2005, this land totaled approximately 370 acres. Over the past years we have been slowly disposing of such excess land. The largest transaction to date has been the donation of land by Crystal to the Town of Killingly, CT for protected open space purposes over a three-year period, 2002 2004. In January 2004, the final parcel of land was transferred to the Town. Over the three-year period the following acreage was donated to the Town under this agreement:

Year	Acres	After-tax Profit
2002	54	$ 293,000
2003	178	$ 942,000
2004	133	$ 707,000

During 2005, the Company lowered the after-tax profit shown above by $353,000. This was due to an ongoing audit by the Internal Revenue Service, which is examining the fair market value of the property reflected on the Company s 2002, 2003 and 2004 tax returns. The Company continues to believe the valuations used in those tax years filings are correct.

During 2005, the Company had one significant land transaction. Connecticut Water sold 74 acres of land in Bristol, Connecticut for $475,000 resulting in a net profit of $256,000.

In December 2004, Connecticut Water made a donation of approximately 60 acres of land to the Town of Plymouth, CT for a new school. As a result of legislation passed in 2004, this donation was eligible for the Connecticut corporate tax credit in the same manner as a donation for open space purposes. The after tax profit from this transaction was $498,000. In 2005, this amount was increased by $37,000 primarily due to a higher valuation reflected on the Company s tax return as a result of an updated appraisal.

Table of Contents

We also have a limited amount of land held by our unregulated companies. Included in this category at December 31, 2005 was approximately 109 acres of land held by BARLACO, which we acquired in February 2001 in conjunction with the Company s acquisition of The Barnstable Holding Company. In February 2006, this land was sold to the Town of Barnstable for $1.0 million.

Additional information on Land Dispositions can be found in Item 7 Management s Discussion and Analysis of Financial Conditions and Results of Operation Commitments and Contingencies.

Competition

Our water companies face competition, presently not material, from a few private water systems operating within, or adjacent to, their franchise areas and from municipal and public authority systems whose service areas in some cases overlap portions of our water companies franchise areas.

Employees

As of December 31, 2005, we employed a total of 191 persons. Our employees are not covered by collective bargaining agreements.

On April 8, 2005, the Company was notified by the National Labor Relations Board, (NLRB) that the International Union of Operating Engineers, Local 478 (Union) had petitioned the NLRB to organize a vote by the Company s employees to authorize the Union to represent a portion of the Company s employees for purposes of collective bargaining with the Company. A representation hearing was conducted before the NLRB on April 18, 2005 in Hartford, CT. A vote concerning representation by the Union of the Company s 99 employees eligible to be in the proposed bargaining unit was held on May 19, 2005. A majority of the ballots cast were against the labor organization; therefore no collective bargaining representative was selected.

Segments of Our Business

For management and financial reporting purposes we divide our business into three Business segments: Water Activities, Real Estate Transactions, and Services and Rentals.

The Water Activities segment is comprised of our core regulated water activities to supply public drinking water to our customers. This segment encompasses all transactions of all our regulated companies with the exception of real estate transactions and services and rental activities.

Our Real Estate Transactions segment involves the sale or donation for income tax benefits of our limited excess real estate holdings. These transactions can be effected by either our regulated or unregulated companies. A breakdown of the net income of this segment between our regulated and unregulated companies for the past three years is as follows:

Table of Contents

	Gain (Loss) from Real Estate Transactions Net of Taxes from Continuing Operations		
	Regulated	Unregulated	Total
2003	$ 942,000	$87,000	$1,029,000
2004	$1,206,000	$	$1,206,000
2005	$ (69,000)	$ 8,000	$ (61,000)

Our Services and Rentals segment provides contracted services to water and wastewater utilities and other clients and also leases certain of our properties to third parties. Both our regulated and unregulated companies offer these transactions. The types of services provided include contract operations of water and wastewater facilities; *Linebacker*®, our service line protection plan for public drinking water customers; and providing bulk deliveries of emergency drinking water to businesses and residences via tanker truck. Our lease and rental income comes primarily from telecommunication antennas placed on our water storage tanks by telecommunication companies, as well as from the renting of residential and commercial property.

Some of the services listed above, including the service line protection plan and antenna leases, have little or no competition. But there can be considerable competition for contract operations of large water and wastewater facilities and systems. However, we have sought to develop a niche market by seeking to serve smaller facilities and systems in our service areas where there is less competition. The services and rentals segment, while relatively new and a small portion of our overall business, has grown significantly over the past five years and now provides nearly 10 percent of our overall net income. The table below describes the net income generated by this segment of our business from our regulated and unregulated companies for the past three years:

	Income from Services and Rentals from Continuing Operations		
	Regulated	Unregulated	Total
2003	$370,000	$322,000	$692,000
2004	$436,000	$393,000	$829,000
2005	$490,000	$455,000	$945,000

ITEM 1A. RISK FACTORS

Because we incur annually significant capital expenditures, we depend on the rates we charge our customers.

The water utility business is capital intensive. On an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. Our ability to maintain and meet our financial objectives is dependent upon the rates we charge our customers. These rates are subject to approval by the Connecticut Department of Public Utility Control (DPUC). The Company is entitled to file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Once a rate increase petition is filed with the DPUC, the ensuing administrative and hearing process may be lengthy and costly. The timing of our rate increase requests are therefore partially dependent upon the estimated cost of the administrative process

Table of Contents

in relation to the investments and expenses that we hope to recover through the rate increase to the extent approved. We can provide no assurances that any future rate increase request will be approved by the DPUC; 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. Additionally, the DPUC may rule that a company must reduce its rates.

Our operating costs could be significantly increased because of state and federal environmental and health and safety laws and regulations.

Our water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act and similar state laws, and federal and state regulations issued under these laws by the U.S. Environmental Protection Agency and state environmental regulatory agencies. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the United States and/or Connecticut. Pursuant to these laws, we are required to obtain various environmental permits from environmental regulatory agencies for our operations. We cannot assure that we have been or will be at all times in total compliance with these laws, regulations and permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators. Environmental laws and regulations are complex and change frequently. These laws, and the enforcement thereof, have tended to become more stringent over time. While we have budgeted for future capital and operating expenditures to maintain compliance with these laws and our permits, it is possible that new or stricter standards could be imposed that will raise our operating costs. Although these costs may be recovered in the form of higher rates, there can be no assurance that the DPUC would approve rate increases to enable us to recover such costs. In summary, we cannot be assured that our costs of complying with, or discharging liabilities under, current and future environmental and health and safety laws will not adversely affect our business, results of operations or financial condition.

Our business is subject to seasonal fluctuations which could affect demand for our water services and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues.

Potential drought conditions may impact our ability to serve our current and future customers uses of water and our financial results.

We depend on an adequate water supply to meet the present and future demands of our customers. Drought conditions could interfere with our sources of water supply and could adversely affect our ability to supply water in sufficient quantities to our existing and future customers. An interruption in our water supply could have a material adverse effect on our financial condition and results of operations. Moreover, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water reserves are sufficient to serve our customers during these drought conditions, which may adversely affect our revenues and earnings.

Any future acquisitions we may undertake may involve risks and uncertainties.

An important element of our growth strategy is the acquisition and integration of water systems in order to move into new service areas and to broaden our current service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management s time and resources. Future acquisitions by us could result in:

- dilutive issuances of our equity securities;
- incurrence of debt and contingent liabilities;
- failure to have effective internal control over financial reporting;
- fluctuations in quarterly results; and
- other acquisition-related expenses.

Some or all of these items could have a material adverse effect on our business as well as our ability to finance our business and comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment and any difficulties we encounter in the integration process, including in the integration of controls necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and adversely affect our internal controls. In addition, as consolidation becomes more prevalent in the water and wastewater industries, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions.

Water supply contamination may adversely affect our business.

Our water supplies are subject to contamination, including contamination from the development of naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as MTBE, and possible terrorist attacks. In the event that our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute the flow of water from an uncontaminated water source or provide additional treatment. We may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our revenues, operating results and financial condition. The costs we incur to decontaminate a water source or an underground water system could be significant and could adversely affect our business, operating results and financial condition and may not be recoverable in rates. We could also be held liable for consequences arising out of human exposure to hazardous substances in our water supplies or other environmental damage. For example, private plaintiffs have the right to bring personal injury or other toxic tort claims arising from the presence of hazardous

Table of Contents

substances in our drinking water supplies. Our insurance policies may not be sufficient to cover the costs of these claims.

The need to increase security may continue to increase our operating costs.

In addition to the potential pollution of our water supply as described above, in the wake of the September 11, 2001 terrorist attacks and the ensuing threats to the nation s health and security, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We have also tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We have and will continue to bear increased costs for security precautions to protect our facilities, operations and supplies. These costs may be significant. We are currently not aware of any specific threats to our facilities, operations or supplies; however, it is possible that we would not be in a position to control the outcome of terrorist events should they occur.

Key employee turnover may adversely affect our operating results.

Our success depends significantly on the continued individual and collective contributions of our management team. The loss of the services of any member of our management team or the inability to hire and retain experienced management personnel could harm our operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The properties of our water companies consist of land, easements, rights (including water rights), buildings, reservoirs, standpipes, dams, wells, supply lines, treatment plants, pumping plants, transmission and distribution mains and conduits, mains and other facilities and equipment used for the collection, purification, storage and distribution of water. Although our regulated water companies own their principal properties in fee, substantially all of the properties owned by our Unionville subsidiary is subject to liens as security for outstanding debt. In addition, in certain cases, our water companies are parties to limited contractual arrangements for the provision of water supply from neighboring utilities. We believe that our properties are in good operating condition. Water mains are located, for the most part, in public streets and, in a few instances, are located on land that we own in fee simple and/or land utilized pursuant to easement right, most of which are perpetual and adequate for the purpose for which they are held. The net utility plant balances of the water companies at December 31, 2005 were as follows:

	Net Utility Plant
Connecticut Water	$ 209,670,000
Crystal	19,078,000
Unionville	18,955,000
Total	$ 247,703,000

Table of Contents

Sources of water supply owned, maintained, and operated by our regulated water companies include eighteen reservoirs and fifty-one well fields. In addition, Connecticut Water has an agreement with the Metropolitan District Commission (MDC) (a public water and sewer authority presently serving the City of Hartford and portions of surrounding towns), which provides, among other things, for the operation and maintenance by MDC of a filtration plant to supply up to 650,000 gallons of treated water per day for Connecticut Water s Collinsville System. Collectively, these sources have the capacity to deliver approximately forty-seven million gallons of potable water daily to the fifteen major operating systems in the following table. In addition to the principal systems identified, our regulated water companies own, maintain, and operate thirteen small, non-interconnected satellite and consecutive water systems that, combined have the ability to deliver about one million gallons of additional water per day to their respective systems. For some small consecutive water systems, purchased water may comprise substantially all of the total available supply of the system.

Our regulated water companies own and operate fifteen water filtration facilities, having a combined treatment capacity of approximately 26.33 million gallons per day. Of these facilities, twelve are owned by Connecticut Water, two by Unionville, and one by Crystal.

The companies estimated available water supply, not including water purchases or non-principal systems, is as follows:

	ESTIMATED AVAILABLE SUPPLY (MILLION GALLONS PER DAY)
Connecticut Water	
Guilford System	9.31
Chester System	1.69
Naugatuck System	6.91
Terryville System	0.94
Thomaston System	0.73
Collinsville System	0.65
Northern Western System	15.99
Somers System	0.28
Stafford System	1.00
Crystal	
Danielson System	3.69
Plainfield System	1.01
Thompson System	0.29
KIP System	0.50
Gallup System	0.60
Unionville	3.88
Total	47.47

As of December 31, 2005, the transmission and distribution systems of our three water companies consisted of approximately 1,300 miles of main. On that date, approximately 75 percent of our mains were eight-inch diameter or larger. Substantially all new main installations are cement-lined ductile iron pipe of eight-inch diameter or larger.

Table of Contents

The size of each company s system(s) in terms of miles of mains is as follows:

	Miles of Transmission and Distribution Water Mains
Connecticut Water	1,100
Crystal	90
Unionville	110
Total	1,300

We believe that our properties are maintained in good condition and in accordance with current regulations and standards of good waterworks industry practice.

ITEM 3. 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 subject, that presents a reasonable likelihood of a material adverse impact on the Company s financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE COMPANY S COMMON STOCK, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is traded on the NASDAQ exchange under the symbol CTWS . Our quarterly high and low stock prices as reported by NASDAQ and the cash dividends we paid during 2005 and 2004 are listed as follows:

	Price		**Dividends**
Period	**High**	**Low**	**Paid**
2005			
First Quarter	$27.53	$24.75	$.2100
Second Quarter	25.87	21.91	$.2100
Third Quarter	28.17	24.27	$.2125
Fourth Quarter	26.32	22.69	$.2125
2004			
First Quarter	$29.76	$27.57	$.2075
Second Quarter	29.00	24.29	$.2075
Third Quarter	27.55	23.83	$.2100
Fourth Quarter	28.98	24.17	$.2100

As of March 1, 2006, there were approximately 4,500 holders of record of our common stock.

We presently have paid or intend to pay quarterly cash dividends in 2006 on March 15, June 15, September 15 and December 15 subject to our earnings and financial condition, regulatory requirements and other factors our Board of Directors may deem relevant.

Purchases of Equity Securities by the Company In May 2005, the Company adopted a common stock repurchase program (Share Repurchase Program). The Share Repurchase Program allows the Company to repurchase up to 10% of its outstanding common stock, or approximately 812,000 shares, at a price or prices that are deemed appropriate. As of December 31, 2005, no shares have been repurchased.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA
SUPPLEMENTAL INFORMATION (Unaudited)
SELECTED FINANCIAL DATA

rs Ended December 31, (thousands of dollars except per share ounts and where otherwise indicated)	**2005**	2004	2003	2002	200
NSOLIDATED STATEMENTS OF INCOME					
tinuing Operations					
rating Revenues	**$ 47,453**	$ 46,008	$ 44,598	$ 43,278	$ 42,88
rating Expenses	**$ 37,961**	$ 35,679	$ 33,503	$ 32,011	$ 31,73
rating Income	**$ 9,492**	$ 10,329	$ 11,095	$ 11,267	$ 11,14
rest and Debt Expense	**$ 4,017**	$ 3,742	$ 4,482	$ 4,348	$ 4,42
ome from Continuing Operations	**$ 7,166**	$ 9,163	$ 8,890	$ 8,318	$ 8,63
h Common Stock Dividends Paid	**$ 6,773**	$ 6,641	$ 6,529	$ 6,277	$ 6,10
idend Payout Ratio from Continuing Operations	**95%**	72%	73%	75%	7
ghted Average Common Shares Outstanding	**8,094,346**	7,999,318	7,956,426	7,717,608	7,619,03
ic Earnings Per Common Share from Continuing Operations	**$ 0.89**	$ 1.15	$ 1.11	$ 1.08	$ 1.1
nber of Shares Outstanding at Year End	**8,169,627**	8,035,199	7,967,379	7,939,713	7,649,36
E on Year End Common Equity	**7.6%**	10.4%	10.7%	10.4%	12
lared Common Dividends Per Share	**$ 0.845**	$ 0.835	$ 0.825	$ 0.814	$ 0.80
NSOLIDATED BALANCE SHEET					
nmon Stockholders Equity	**$ 94,076**	$ 87,865	$ 83,315	$ 79,975	$ 70,78
g-Term Debt	**$ 77,404**	$ 66,399	$ 64,754	$ 64,734	$ 63,95
ferred Stock (Consolidated, Excluding Current Maturities)	**$ 847**	$ 847	$ 847	$ 847	$ 84
al Capitalization	**$ 172,327**	$ 155,111	$ 148,916	$ 145,556	$ 135,58
ckholders Equity (Includes Preferred Stock)	**55%**	57%	57%	56%	5
g-Term Debt	**45%**	43%	43%	44%	4
Utility Plant	**$ 247,703**	$ 241,776	$ 235,098	$ 229,097	$ 202,33
al Assets	**$ 306,035**	$ 290,940	$ 281,345	$ 264,799	$ 231,71
k Value Per Common Share	**$ 11.52**	$ 10.94	$ 10.46	$ 10.07	$ 9.2
ERATING REVENUES BY REVENUE CLASS					
idential	**$ 29,980**	$ 28,951	$ 27,831	$ 27,310	$ 27,31
nmercial	**5,619**	5,444	5,327	5,141	5,02
ustrial	**1,538**	1,633	1,616	1,709	1,68
lic Authority	**1,625**	1,236	1,302	1,245	1,27
Protection	**8,267**	8,231	8,026	7,355	7,11
er (including non-metered accounts)	**424**	513	496	518	47
al Operating Revenues	**$ 47,453**	$ 46,008	$ 44,598	$ 43,278	$ 42,88
nber of Customers (Average)	**81,763**	87,259	86,145	82,119	78,15
ed Consumption (Millions of Gallons)	**7,276**	7,801	7,640	7,418	7,25

nber of Employees	**191**	193	195	191	18

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

Overview

The Company is a non-operating holding company, whose income is derived from the earnings of its ten wholly-owned subsidiary companies. In 2005, approximately 88% of the Company s earnings from continuing operations were attributable to water activities carried out within its three regulated water companies: Connecticut Water, Crystal, and Unionville. The rates charged for