

CONSOLIDATED WATER CO LTD
Form 10-Q
November 12, 2013

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 September 30, 2013

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: 0-25248

CONSOLIDATED WATER CO. LTD.

(Exact name of Registrant as specified in its charter)

CAYMAN ISLANDS

(State or other jurisdiction of
incorporation or organization)

98-0619652

(I.R.S. Employer Identification No.)

Regatta Office Park

Windward Three, 4th Floor, West Bay Road

P.O. Box 1114

Grand Cayman KY1-1102

Cayman Islands

(Address of principal executive offices)

N/A

(Zip Code)

(345) 945-4277

(Registrant's telephone number, including area code)

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

Yes 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).

Edgar Filing: CONSOLIDATED WATER CO LTD - Form 10-Q

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an 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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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

As of November 5, 2013, 14,646,948 shares of the registrant's common stock, with US\$0.60 par value, were outstanding.

TABLE OF CONTENTS

	Description	Page
PART I	FINANCIAL INFORMATION	4
Item 1	Financial Statements	4
	Condensed Consolidated Balance Sheets as of September 30, 2013 (Unaudited) and December 31, 2012	4
	Condensed Consolidated Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2013 and 2012	5
	Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the Three and Nine Months Ended September 30, 2013 and 2012	6
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2013 and 2012	7
Item 2	Notes to Condensed Consolidated Financial Statements (Unaudited)	8
	Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3	Quantitative and Qualitative Disclosures about Market Risk	29
Item 4	Controls and Procedures	29
PART II	OTHER INFORMATION	29
Item 1A	Risk Factors	29
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 6	Exhibits	32
SIGNATURES		33

NOTE REGARDING CURRENCY AND EXCHANGE RATES

Unless otherwise indicated, all references to “\$” or “US\$” are to United States dollars.

The exchange rate for conversion of Cayman Island dollars (CI\$) into US\$, as determined by the Cayman Islands Monetary Authority, has been fixed since April 1974 at US\$1.20 per CI\$1.00.

The exchange rate for conversion of Belize dollars (BZE\$) into US\$, as determined by the Central Bank of Belize, has been fixed since 1976 at US \$0.50 per BZE\$1.00.

The exchange rate for conversion of Bahamas dollars (B\$) into US\$, as determined by the Central Bank of The Bahamas, has been fixed since 1973 at US\$1.00 per B\$1.00.

The official currency of the British Virgin Islands is the United States dollar.

The exchange rate for conversion of Bermuda dollars (BMD\$) into US\$ as determined by the Bermuda Monetary Authority, has been fixed since 1970 at US\$1.00 per BMD\$1.00.

Consolidated Water Co. Ltd.’s Netherlands subsidiary conducts business in US\$ and euros, its Indonesian subsidiary conducts business in US\$ dollars and Indonesian rupiahs, and its Mexico subsidiary conducts business in US\$ and Mexican pesos. The exchange rates for conversion of euros, rupiahs and pesos into US\$ vary based upon market conditions.

PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 30,823,185	\$ 33,892,655
Certificate of deposit	5,000,000	-
Marketable securities	8,586,090	8,570,338
Accounts receivable, net	15,873,484	12,516,466
Inventory	1,325,247	1,757,601
Prepaid expenses and other current assets	2,666,949	2,709,185
Current portion of loans receivable	1,737,285	1,812,532
Total current assets	66,012,240	61,258,777
Property, plant and equipment, net		
Construction in progress	59,619,236	58,993,406
Inventory, non-current	854,064	2,612,800
Loans receivable	4,048,745	3,970,241
Investment in OC-BVI	7,751,561	9,028,279
Intangible assets, net	6,930,384	6,925,346
Goodwill	1,185,827	1,455,015
Investment in land	3,499,037	3,499,037
Other assets	12,025,566	-
Total assets	\$ 164,754,678	\$ 150,449,086
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other current liabilities	\$ 6,378,188	\$ 5,883,666
Dividends payable	1,163,680	1,158,967
Current portion of long term debt	1,740,527	1,647,493
Land purchase obligation	10,050,000	-
Total current liabilities	19,332,395	8,690,126
Long term debt	3,887,895	5,205,167
Other liabilities	319,971	435,413
Total liabilities	23,540,261	14,330,706
Equity		
Consolidated Water Co. Ltd. stockholders' equity		
Redeemable preferred stock, \$0.60 par value. Authorized 200,000 shares; issued and outstanding 38,468 and 30,265 shares, respectively	23,081	18,159
Class A common stock, \$0.60 par value. Authorized 24,655,000 shares; issued and outstanding 14,646,132 and 14,593,011 shares, respectively	8,787,679	8,755,807

Edgar Filing: CONSOLIDATED WATER CO LTD - Form 10-Q

Class B common stock, \$0.60 par value. Authorized 145,000 shares; none issued or outstanding	-	-
Additional paid-in capital	83,132,069	82,467,421
Retained earnings	47,169,242	42,965,179
Cumulative translation adjustment	(373,032)	(15,400)
Total Consolidated Water Co. Ltd. stockholders' equity	138,739,039	134,191,166
Non-controlling interests	2,475,378	1,927,214
Total equity	141,214,417	136,118,380
Total liabilities and equity	\$ 164,754,678	\$ 150,449,086

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

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended 2013	September 30, 2012	Nine Months Ended 2013	September 30, 2012
Retail water revenues	\$ 5,023,591	\$ 5,703,233	\$ 17,598,200	\$ 18,138,615
Bulk water revenues	10,239,552	10,031,176	30,258,814	30,313,063
Services revenues	175,438	105,727	706,144	347,964
Total revenues	15,438,581	15,840,136	48,563,158	48,799,642
Cost of retail revenues	2,661,463	2,798,560	8,366,391	8,720,675
Cost of bulk revenues	7,280,151	7,777,247	21,514,909	23,301,186
Cost of services revenues	270,082	29,335	836,945	183,238
Total cost of revenues	10,211,696	10,605,142	30,718,245	32,205,099
Gross profit	5,226,885	5,234,994	17,844,913	16,594,543
General and administrative expenses	4,308,851	4,089,575	11,472,549	11,052,833
Income from operations	918,034	1,145,419	6,372,364	5,541,710
Other income (expense):				
Interest income	232,820	198,604	582,704	649,494
Interest expense	(117,242)	(146,880)	(374,512)	(737,330)
Profit sharing income from OC-BVI	20,250	-	335,361	-
Equity in earnings of OC-BVI	55,359	99,932	919,552	201,693
Other	(58,722)	69,999	93,955	225,166
Other income (expense), net	132,465	221,655	1,557,060	339,023
Net income	1,050,499	1,367,074	7,929,424	5,880,733
Income attributable to non-controlling interests	141,809	62,231	424,882	275,732
Net income attributable to Consolidated Water Co. Ltd. stockholders	\$ 908,690	\$ 1,304,843	\$ 7,504,542	\$ 5,605,001
Basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	\$ 0.06	\$ 0.09	\$ 0.51	\$ 0.38
Diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	\$ 0.06	\$ 0.09	\$ 0.51	\$ 0.38
Dividends declared per common share	\$ 0.075	\$ 0.075	\$ 0.225	\$ 0.225
Weighted average number of common shares used in the determination of:				
Basic earnings per share	14,644,740	14,580,946	14,626,755	14,576,790

Diluted earnings per share	14,734,916	14,617,195	14,682,186	14,604,398
----------------------------	------------	------------	------------	------------

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

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended September 30, 2013	September 30, 2012	Nine Months Ended September 30, 2013	September 30, 2012
Net Income	\$ 1,050,499	\$ 1,367,074	\$ 7,929,424	\$ 5,880,733
Other comprehensive income (loss)				
Foreign currency translation adjustment	(303,195)	(6,259)	(357,632)	(6,259)
Total other comprehensive income (loss)	(303,195)	(6,259)	(357,632)	(6,259)
Comprehensive income (loss)	747,304	1,360,815	7,571,792	5,874,474
Comprehensive income attributable to the non-controlling interest	126,649	61,918	407,000	275,419
Comprehensive income attributable to Consolidated Water Co. Ltd. stockholders	\$ 620,655	\$ 1,298,897	\$ 7,164,792	\$ 5,599,055

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

CONSOLIDATED WATER CO. LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2013	2012
Net cash provided by (used in) operating activities	\$ 8,566,551	\$ 8,449,864
Cash flows from investing activities		
Purchase of certificate of deposit	(5,000,000)	-
Additions to property, plant and equipment and construction in progress	(2,958,494)	(3,057,839)
Proceeds from sale of equipment	13,740	-
Distribution of earnings from OC-BVI	1,249,875	507,525
Collections on loans receivable	1,351,965	1,283,518
Payment for investment in land	(1,975,566)	-
Payment for NSC option agreement	-	(300,000)
Release of previously restricted cash balances	-	7,500,000
Net cash provided by (used in) investing activities	(7,318,480)	5,933,204
Cash flows from financing activities		
Dividends paid	(3,295,765)	(3,283,164)
Issuance (repurchase) of redeemable preferred stock, net	9,313	1,154
Proceeds received from exercise of stock options	302,807	-
Principal repayments of long term debt	(1,283,427)	(9,709,821)
Capital contribution from non-controlling interest	142,105	135,000
Repayment of non-revolving credit facility	-	(7,500,000)
Net cash provided by (used in) financing activities	(4,124,967)	(20,356,831)
Effect of exchange rate changes on cash	(192,574)	(6,258)
Net increase (decrease) in cash and cash equivalents	(3,069,470)	(5,980,021)
Cash and cash equivalents at beginning of period	33,892,655	37,624,179
Cash and cash equivalents at end of period	\$ 30,823,185	\$ 31,644,158
Interest paid in cash	\$ 294,603	\$ 559,361
Non-cash investing and financing activities		
Issuance of 10,180 and 10,033, respectively, of redeemable preferred stock for services rendered	\$ 110,249	\$ 77,856
Issuance of 11,131 and 10,800, respectively, shares of common stock for services rendered	\$ 82,369	\$ 92,664
Conversion (on a one-to-one basis) of 3,660 and 2,629, respectively, shares of redeemable preferred stock to common stock	\$ 2,196	\$ 1,577
Dividends declared but not paid	\$ 1,101,345	\$ 1,095,929