CONNECTICUT WATER SERVICE INC / CT
Form 10-Q
August 09, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED June 30, 2006

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	06413-1600
(Address of principal executive offices)	(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer .

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

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

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.

8,238,779
Number of shares of common stock outstanding, June 30, 2006
(Includes 56,473 common stock equivalent shares awarded under the Performance Stock Programs)
Financial Report
June 30, 2006 and 2005

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

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EX-32: CERTIFICATION

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Connecticut Water Service, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
At June 30, 2006 and December 31, 2005
(In thousands)

	June 30, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)
ASSETS		
Utility Plant	$ 349,845	$ 340,755
Construction Work in Progress	3,574	5,505
Utility Plant Acquisition Adjustments	(1,273)	(1,273)
	352,146	344,987
Accumulated Provision for Depreciation	(99,966)	(97,284)
Net Utility Plant	252,180	247,703
Other Property and Investments	4,501	4,542
Cash and Cash Equivalents	6,248	4,439
Restricted Cash	307	2,628
Accounts Receivable (Less Allowance, 2006 - $242; 2005 - $256)	6,016	5,888
Accrued Unbilled Revenues	3,742	3,918
Materials and Supplies, at Average Cost	966	860
Prepayments and Other Current Assets	1,441	1,274
Short-Term Investments		6,815
Barlaco Assets Held for Sale		324
Total Current Assets	18,720	26,146
Unamortized Debt Issuance Expense	7,550	7,823
Unrecovered Income Taxes	14,602	12,986
Post-retirement Benefits Other Than Pension	2,159	1,595
Goodwill	3,608	3,608
Deferred Charges and Other Costs	2,218	1,632
Total Regulatory and Other Long-Term Assets	30,137	27,644
Total Assets	$ 305,538	$ 306,035

CAPITALIZATION AND LIABILITIES

Common Stockholders Equity	$ 94,586	$ 94,076
Preferred Stock	847	847
Long-Term Debt	77,350	77,404
Total Capitalization	172,783	172,327
Current Portion of Long Term Debt	7	2,331
Interim Bank Loans Payable	4,750	4,750
Accounts Payable and Accrued Taxes, Interest and Other Expenses	3,933	5,629
Other Current Liabilities	646	519
Total Current Liabilities	9,336	13,229
Advances for Construction	29,755	29,355
Contributions in Aid of Construction	45,738	45,709
Deferred Federal and State Income Taxes	25,486	24,915
Unfunded Future Income Taxes	12,247	11,273
Long-term Compensation Arrangements	8,538	7,541
Unamortized Investment Tax Credits	1,655	1,686
Commitments and Contingencies		
Total Long-Term Liabilities	123,419	120,479
Total Capitalization and Liabilities	$ 305,538	$ 306,035

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

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Connecticut Water Service, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CAPITALIZATION

At June 30, 2006 and December 31, 2005

(In thousands, except share data)

	June 30, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)
Common Stockholders Equity		
Common Stock Without Par Value Authorized - 15,000,000 Shares; Shares Issued and Outstanding: 2006 - 8,238,779 ; 2005 - 8,169,627	$ 60,795	$ 59,604
Stock Issuance Expense	(1,600)	(1,599)
Retained Earnings	35,001	35,777
Accumulated Other Comprehensive Income	390	294
Total Common Stockholders Equity	94,586	94,076
Preferrred 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
Cumulative Preferred Stock of Barnstable Water Company Voting, $100 Par Value; Authorized, Issued and Outstanding 750 shares. Redeemable at $105 per share.	75	75
Total Preferred Stock	847	847
Long-Term Debt		
Regulated Water Companies		
Unsecured Water Facilities Revenue Refinancing Bonds		
5.05% 1998 Series A, due 2028	9,640	9,640
5.125% 1998 Series B, due 2028	7,635	7,685
4.40% 2003A Series, due 2020	8,000	8,000
5.00% 2003C Series, due 2022	14,930	14,930
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	15,000	15,000
Secured Bonds		
8.125% Farmington Savings Bank, Due 2011		842

3.56% State of Connecticut, Due 2023		1,471
Total Regulated Water Companies	77,255	79,618
Unregulated Secured		
8.0% New London Trust, Due 2017	102	105
Unregulated Note Payable		
6% Note Payable, Due 2006		12
Total Connecticut Water Service, Inc.	77,357	79,735
Less Current Portion	(7)	(2,331)
Total Long-Term Debt	77,350	77,404
Total Capitalization	$ 172,783	$ 172,327

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 June 30, 2006 and 2005
(In thousands, except per share amounts)

	2006 (Unaudited)	2005 (Unaudited)
Operating Revenues	$ 11,428	$ 10,986
Operating Expenses		
Operation and Maintenance	6,805	6,225
Depreciation	1,465	1,436
Income Taxes	117	299
Taxes Other Than Income Taxes	1,273	1,315
Total Operating Expenses	9,660	9,275
Utility Operating Income	1,768	1,711
Other Income, Net of Taxes		
Gain (Loss) on Property Transactions	(20)	
Non-Water Sales Earnings	252	240
Allowance for Funds Used During Construction	103	150
Other	202	36
Total Other Income, Net of Taxes	537	426
Interest and Debt Expense		
Interest on Long-Term Debt	992	729
Other Interest Charges	195	138
Amortization of Debt Expense	141	87
Total Interest and Debt Expense	1,328	954
Income from Continuing Operations	977	1,183
Discontinued Operations, Net of Tax of $4 and $1,794 in 2006 and 2005 respectively	6	2,905
Net Income	983	4,088
Preferred Stock Dividend Requirement	10	10
Net Income Applicable to Common Stock	$ 973	$ 4,078

Weighted Average Common Shares Outstanding:				
Basic		8,225		8,078
Diluted		8,236		8,118
Earnings Per Common Share:				
Basic-Continuing Operations	$	0.12	$	0.15
Basic-Discontinued Operations				0.35
Basic-Total	$	0.12	$	0.50
Diluted-Continuing Operations	$	0.12	$	0.15
Diluted-Discontinued Operations				0.35
Diluted-Total	$	0.12	$	0.50
Dividends Per Common Share	$	0.2125	$	0.2100

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

Connecticut Water Service, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
For the Six Months Ended June 30, 2006 and 2005
(In thousands, except per share amounts)

	2006 (Unaudited)	2005 (Unaudited)
Operating Revenues	$ 21,886	$ 21,910
Operating Expenses		
Operation and Maintenance	12,926	11,383
Depreciation	2,929	2,871
Income Taxes	223	1,070
Taxes Other Than Income Taxes	2,657	2,644
Total Operating Expenses	18,735	17,968
Utility Operating Income	3,151	3,942
Other Income, Net of Taxes		
Gain on Property Transactions	904	261
Non-Water Sales Earnings	524	460
Allowance for Funds Used During Construction	251	271
Other	346	75
Total Other Income, Net of Taxes	2,025	1,067
Interest and Debt Expense		
Interest on Long-Term Debt	1,906	1,397
Other Interest Charges	361	255
Amortization of Debt Expense	235	175
Total Interest and Debt Expense	2,502	1,827
Income from Continuing Operations	2,674	3,182
Discontinued Operations, Net of Tax of $17 and $1,791 in 2006 and 2005 respectively	25	2,891
Net Income	2,699	6,073
Preferred Stock Dividend Requirement	19	19
Net Income Applicable to Common Stock	$ 2,680	$ 6,054

Weighted Average Common Shares Outstanding:				
Basic		8,204		8,063
Diluted		8,216		8,102
Earnings Per Common Share:				
Basic-Continuing Operations	$	0.33	$	0.40
Basic-Discontinued Operations				0.35
Basic-Total	$	0.33	$	0.75
Diluted-Continuing Operations	$	0.33	$	0.40
Diluted-Discontinued Operations				0.35
Diluted-Total	$	0.33	$	0.75
Dividends Per Common Share	$	0.4250	$	0.4200

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

Connecticut Water Service, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Three Months Ended June 30, 2006 and 2005
(In thousands)

	2006 (Unaudited)	2005 (Unaudited)
Net Income Applicable to Common Stock	$ 973	$ 4,078
Other Comprehensive Income, net of tax		
Qualified Cash Flow Hedging Instrument Benefit (Expense), net of tax expense (benefit) of $24 in 2006; $(88) in 2005	36	(124)
Comprehensive Income	$ 1,009	$ 3,954

Connecticut Water Service, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Six Months Ended June 30, 2006 and 2005
(In thousands)

	2006 (Unaudited)	2005 (Unaudited)
Net Income Applicable to Common Stock	$ 2,680	$ 6,054
Other Comprehensive Income, net of tax		
Qualified Cash Flow Hedging Instrument Benefit, net of tax expense of $72 in 2006; $27 in 2005	96	48
Comprehensive Income	$ 2,776	$ 6,102

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

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Connecticut Water Service, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the Three Months Ended June 30, 2006 and 2005
(In thousands, except per share amounts)

	2006 (Unaudited)	2005 (Unaudited)
Balance at Beginning of Period	$ 35,764	$ 32,562
Net Income Before Preferred Dividends of Parent	983	4,088
	36,747	36,650
Dividends Declared:		
Cumulative Preferred, Class A, $.20 per share	3	3
Cumulative Preferred, Series $.90, $.225 per share	7	7
Common Stock 2006 $.2125 per share; 2005 $.21 per share	1,736	1,685
	1,746	1,695
Balance at End of Period	$ 35,001	$ 34,955

Connecticut Water Service, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the Six Months Ended June 30, 2006 and 2005
(In thousands, except per share amounts)

	2006 (Unaudited)	2005 (Unaudited)
Balance at Beginning of Period	$ 35,777	$ 32,264
Net Income Before Preferred Dividends of Parent	2,699	6,073
	38,476	38,337
Dividends Declared:		
Cumulative Preferred, Class A, $.40 per share	6	6
Cumulative Preferred, Series $.90, $.45 per share	13	13
Common Stock 2006 $.425 per share; 2005 $.42 per share	3,456	3,363
	3,475	3,382
Balance at End of Period	$ 35,001	$ 34,955

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

Connecticut Water Service, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2006 and 2005
(In thousands)

	2006 (Unaudited)	**2005 (Unaudited)**
Operating Activities:		
Net Income	$ 2,699	$ 6,073
Discontinued Operations	25	2,891
Income from Continuing Operations	2,674	3,182
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Gain on Sale of Barlaco Assets Held for Sale	(921)	
Allowance for Funds Used During Construction	(286)	(318)
Depreciation (including $135 in 2006, $92 in 2005 charged to other accounts)	3,064	2,963
Change in Assets and Liabilities:		
Decrease in Accounts Receivable and Accrued Unbilled Revenues	48	344
(Increase) Decrease in Other Current Assets	(87)	2,878
Decrease in Other Non-Current Items	152	518
Decrease in Accounts Payable, Accrued Expenses and Other Current Liabilities	(1,113)	(5,762)
Increase (Decrease) in Deferred Income Taxes and Investment Tax Credits, Net	(102)	271
Total Adjustments	755	894
Net Cash and Cash Equivalents Provided by Continuing Operations	3,429	4,076
Net Cash and Cash Equivalents Provided by Discontinued Operations	25	1,380
Net Cash and Cash Equivalents Provided by Operating Activities	3,454	5,456
Investing Activities:		
Net Additions to Utility Plant Used in Continuing Operations	(7,037)	(5,978)
Proceeds from Sale of Barnstable Water Company Assets (Net of $55 in Transaction Costs)		9,945
Sale (Purchase) of Short-term Investments	6,814	(6,713)
Release of Restricted Cash	2,464	
Proceeds from Sale of Barlaco Assets Held for Sale (Net of $3 in Transaction Costs)	997	
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities in Continuing Operations	3,238	(2,746)
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities in Discontinued Operations		171
Net Cash Provided by (Used in) Investing Activities	3,238	(2,575)

Financing Activities:				
Net Proceeds from Interim Bank Loans		4,750		7,750
Net Repayment of Interim Bank Loans		(4,750)		(5,650)
Proceeds from Issuance of Common Stock		1,043		1,290
Proceeds from Exercise of Stock Options		148		
Repayment of Long-Term Debt Including Current Portion		(2,378)		(558)
Costs Incurred to Issue Long-Term Debt and Common Stock		(1)		(1)
Advances from (Refunds to) Others for Construction		(212)		279
Cash Dividends Paid		(3,483)		(3,386)
Net Cash and Cash Equivalents Used in Financing Activities in Continuing Operations		(4,883)		(276)
Net Cash and Cash Equivalents Used in Financing Activities in Discontinued Operations				(3,210)
Net Cash and Cash Equivalents Used in Financing Activities		(4,883)		(3,486)
Net Increase (Decrease) in Cash and Cash Equivalents		1,809		(605)
Cash and Cash Equivalents at Beginning of Year		4,439		707
Cash and Cash Equivalents at End of Period	$	6,248	$	102
Non-Cash Investing and Financing Activites				
Non-Cash Contributed Utility Plant	$	661	$	663
Supplemental Disclosures of Cash Flow Information:				
Cash Paid for Continuing Operations During the Year for:				
Interest	$	2,087	$	1,703
State and Federal Income Taxes	$	803	$	3,512
Cash Paid for Discontinued Operations During the Year for:				
Interest	$		$	106
State and Federal Income Taxes	$	73	$	410

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

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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. 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 period ended December 31, 2005 and as updated in the Company s March 31, 2006 Form 10-Q.

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.

Certain reclassifications have been made to conform previously reported data to the current presentation.

Within the Statements of Cash Flows we have revised the classification of certain items to more clearly reflect the Developer Advances and Contributions that regularly occurred within the regulated water subsidiaries for 2005. The non-cash contribution of completed utility plant by developers to the Company has been eliminated from both Investing Activities and Financing Activities. In addition, we have eliminated AFUDC and any accrual of construction costs that had been included in the Operating Activities and Investing Activities sections of the Statements of Cash Flows. The resulting revised classifications have no effect on Net Increase (Decrease) in Cash and Cash Equivalents during the period.

2. Stock-Based Compensation

The Company s 2004 Performance Stock Program (2004 PSP), approved by shareholders in 2004, authorizes the issuance of up to 700,000 shares of Company Common Stock. As of June 30, 2006, there were 644,270 shares available for grant. In total, under the original Plan (1994 Plan) there were 700,000 shares authorized. (There are no shares available for grant under the original Plan.) There are four forms of awards under the 2004 PSP. Stock Options are one form of award. The Company has not issued any stock options since 2003, and does not anticipate issuing any more for the foreseeable future. The other three forms of award which the Company has continued to issue are: Restricted Stock, Performance Shares and Cash Units.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R replaces SFAS No. 123, Accounting for Stock-Based Compensation and supersedes Accounting Principals Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees.

STOCK OPTIONS The Company adopted the provisions of SFAS 123R as of January 1, 2006 using the modified prospective transition method, which does not require restatement of prior year results. The resulting impact on the income statement for the three month period ended June 30, 2006 was an expense of approximately $14,000, net of taxes of $12,000. The resulting impact on the income statement for the six month period ended June 30, 2006 was an expense of approximately $29,000, net of taxes of $24,000. SFAS 123R requires that all share-based payments to employees, including grants of stock options, be recognized as compensation expense in the financial statements based on their fair value.

Prior to January 1, 2006, the Company followed APB 25 and the disclosure requirements for SFAS 123(R) with pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting as defined in SFAS 123 has been applied. The Company s consolidated financial statements as of and for the first and second quarters of 2006 reflect the impact of adopting SFAS 123(R). The total compensation cost related to non-vested stock option awards not yet recognized is approximately $40,000, net of tax. These costs are expected to be recognized over the next two years.

For purposes of calculating the fair value of each stock grant at the date of grant, the Company used the Black Scholes Option Pricing model. Under the Plans, options begin to become exercisable one year from the date of grant. Vesting periods range from one to five years. The maximum term ranges from five to ten years.

The following table illustrates the effect on Net Income and Earnings Per Share if the Company had applied the fair value recognition provisions of SFAS 123(R) to the stock-based employee compensation for the three and six months ended June 30, 2005.

(in thousands, except for per share data)		Three Months Ended June 30, 2005
Net income available to common shareholders	$	4,078
Add: Total stock-based employee compensation expense determined under intrinsic value based method for all awards, net of $43 in related tax effects		65
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of $52 in related tax effects		(78)
Pro forma net income	$	4,065
Earnings per share:		
Basic Total, as reported	$	0.50
Basic Total, pro forma	$	0.50
Diluted Total, as reported	$	0.50
Diluted Total, pro forma	$	0.50

(in thousands, except for per share data)		Six Months Ended June 30, 2005
Net income available to common shareholders	$	6,054
Add: Total stock-based employee compensation expense determined under intrinsic value based method for all awards, net of $99 in related tax effects		149
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of $123 in related tax effects		(185)
Pro forma net income	$	6,018
Earnings per share:		
Basic Total, as reported	$	0.75
Basic Total, pro forma	$	0.75

Diluted	Total, as reported	$	0.74
Diluted	Total, pro forma	$	0.74

A summary of option activity under the Company s Stock Option Program as of June 30, 2006, and changes during the six month period ended June 30, 2006 were as follows:

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2006	202,271	$ 24.04		
Granted				
Forfeited				
Exercised	(16,962)	16.76		
Outstanding at June 30, 2006	185,309	$ 24.70	5.1 years	$ 198,686
Exercisable at June 30, 2006	158,723	$ 24.15	5.2 years	$ 198,686

A summary of the status of the Company s non-vested option shares as of June 30, 2006 is presented below:

Non vested Shares	Number of Shares	Weighted Average Grant-Date Price
Non vested at January 1, 2006	97,346	$ 27.90
Granted		
Vested		
Forfeited		
Non vested at June 30, 2006	97,346	$ 27.90

RESTRICTED STOCK The Company has granted restricted shares of Common Stock and Performance Shares to key members of management under the 2004 PSP. These Common Stock share awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. The value of these restricted shares is based on the market price of the Company s Common Stock on the date of grant and compensation expense is recorded on a straight-line basis over the awards vesting periods. The adoption of SFAS No. 123R had no impact on the Company s recognition of stock-based compensation expense associated with the restricted stock awards. The Company expects future forfeitures of restricted stock to be de minimus. There were no forfeitures during the six months ended June 30, 2006 nor have there been forfeitures prior to the adoption of SFAS No. 123R for the grants that were under restriction as of January 1, 2006.

RESTRICTED STOCK (non-performance-based awards) The following tables summarize the non-performance-based restricted stock amounts and activity (in thousands, except for per share data):

Non vested Shares	Number of Shares	Weighted Average Fair Value

Non vested at January 1, 2006	21,988	$	25.24
Granted	4,507	$	25.00
Vested			
Forfeited			
Non vested at June 30, 2006	26,495	$	25.20

There were no vested restricted stock shares as of June 30, 2006. The shares start vesting in 2007.

Total stock-based compensation recorded in the statement of income related to the non-performance-based restricted stock awards was $16,000 and $33,000 during the three and six months ended June 30, 2006, respectively. There was no expense recognized in the first six months of 2005 because the program was initiated in the fourth quarter of 2005.

As of June 30, 2006, $618,977 of unrecognized compensation costs related to restricted stock is expected to be recognized over a straight-line basis for a period of 6 years. The aggregate intrinsic value of restricted stock as of June 30, 2006 was $620,000. The aggregate intrinsic value of restricted stock is based on the number of shares of restricted stock and the market value of the Company s common stock as of the period end date.

RESTRICTED STOCK (performance-based) In 2006, 10,875 shares of restricted stock were issued to certain key members of management. The Company is estimating a forfeiture rate of 30%. Upon meeting specific performance targets, 5,510 shares will vest in a one year period and the remaining shares will vest over four years. The cost is being recognized ratably over the vesting period.

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

3. Pension and Other Postretirement Benefits

Pension Benefits

Components of Net Periodic Cost

Three months ended June 30

	2006	2005
Service Cost	$ 307	$ 251
Interest Cost	421	395
Expected Return on Plan Assets	(532)	(412)
Amortization of Transition Obligation		2
Amortization of Prior Service Cost	19	25
Amortization of Net (Gain) Loss	123	93
Net Periodic Benefit Cost	$ 338	$ 354

Pension Benefits

Components of Net Periodic Cost

Six months ended June 30

	2006	2005
Service Cost	$ 614	$ 525
Interest Cost	841	776
Expected Return on Plan Assets	(991)	(823)
Amortization of Transition Obligation	1	5
Amortization of Prior Service Cost	38	49
Amortization of Net (Gain) Loss	245	161
Net Periodic Benefit Cost	$ 748	$ 693

The Company plans to make its expected contribution of $2,450,000 for plan year 2005 in the third quarter of 2006. In 2006, the Company also anticipates it will make a contribution of approximately $3,600,000 for plan year 2006.

Other Postretirement Benefits

Components of Net Periodic Cost

Three months ended June 30

	Connecticut Water		Barnstable Water	
	2006	2005	2006	2005
Service Cost	$ 135	$ 100	$	$ 1
Interest Cost	112	93	1	1
Expected Return on Plan Assets	(45)	(43)		
Amortization of Transition Obligation	30	30		1
Recognized Net (Gain) Loss	50	27		
Net Periodic Benefit Cost, Prior to FAS 88 Event	282	207	1	3
Additional Amount Recognized Due to Settlement or Curtailment				

Net Periodic Benefit Cost	$ 282	$ 207	$ 1	$ 3

Other Postretirement Benefits
Components of Net Periodic Cost
Six months ended June 30

	Connecticut Water		Barnstable Water	
	2006	2005	2006	2005
Service Cost	$ 270	$ 200	$	$ 1
Interest Cost	223	186	2	3
Expected Return on Plan Assets	(90)	(86)		
Amortization of Transition Obligation	60	60		3
Recognized Net (Gain) Loss	101	55	(1)	(1)
Net Periodic Benefit Cost, Prior to FAS 88 Event	564	415	1	6
Additional Amount Recognized Due to Settlement or Curtailment			30	
Net Periodic Benefit Cost	$ 564	$ 415	$ 31	$ 6

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

4. Earnings per Share

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

	3 Months Ended		6 Months Ended	
	06/30/06	06/30/05	06/30/06	06/30/05
Common Shares Outstanding:				
End of period:	8,238,779	8,096,542	8,238,779	8,096,542
Weighted Average Shares Outstanding:				
Days outstanding basis				
Basic	8,224,776	8,078,100	8,204,100	8,062,649
Fully Diluted	8,236,002	8,117,728	8,215,996	8,101,729
Basic Earnings Per Share from Continuing Operations	$ 0.12	$ 0.15	$ 0.33	$ 0.40
Dilutive Effect of Unexercised Stock Options	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Diluted Earnings Per Share	$ 0.12	$ 0.15	$ 0.33	$ 0.40

5. Accounting Pronouncements

In February 2006, the FASB released SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. SFAS No. 155 permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. Additionally, SFAS No. 155 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS No. 155 also amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument. We believe that there will be no material effect on the Company s financial position or results of operations upon the adoption of this interpretation.

In March 2006, the FASB released SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140. SFAS No. 140 establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practible. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. Adoption of this Statement is required as of the beginning of the first fiscal year that begins after September 15, 2006. We believe that there will be no material effect on the Company s financial position or results of operations upon the adoption of this interpretation.

In March 2006, the FASB issued Exposure Draft No. 1025-300, Proposed Statement of Financial Accounting Standards Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106 and 132(R). The purpose of this proposed statement is to require employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan on the statement of financial position, recognize certain actuarial gains and losses that are not recognized as components of net periodic benefit cost in comprehensive income, recognize any transition asset or obligation remaining from the initial adoption of FAS 87 or FAS 106 as an adjustment to retained earnings, measure defined benefit plan assets and obligations as of the date of the employer s statement of financial position, and disclose additional information in the notes to financial statements about the effects of delaying recognition of the actuarial gains and losses and the prior service costs and credits. The FASB expected comments on this exposure draft by May 31, 2006. The Company is in the process of determining the impact, if any, the adoption of the proposed SFAS would have on our consolidated financial statements and related disclosures.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes which prescribes a recognition measurement and threshold process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006, as such we will be required to adopt this interpretation in the first quarter of 2007. We are in the process of determining the impact, if any, the adoption of FIN 48 will have on our consolidated financial statements and related disclosures.

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 of dollars:

Three Months Ended June 30, 2006

Segment	Revenues	Pre-tax Income (Loss)	Income Tax	Income (Loss) from Continuing Operations
Water Activities	$ 11,428	$ 798	$ 53	$ 745
Real Estate Transactions		(20)		(20)
Services & Rentals	1,538	424	172	252
Total	$ 12,966	$ 1,202	$ 225	$ 977

Three Months Ended June 30, 2005

Segment	Revenues	Pre-tax Income	Income Tax	Income from Continuing Operations
Water Activities	$ 10,986	$ 1,273	$ 330	$ 943
Real Estate Transactions				
Services & Rentals	1,163	390	150	240
Total	$ 12,149	$ 1,663	$ 480	$ 1,183

Six Months Ended June 30, 2006

Income
from

Segment	Revenues	Pre-tax Income	Income Tax	Continuing Operations
Water Activities	$ 21,886	$ 1,437	$ 191	$ 1,246
Real Estate Transactions	1,005	574	(330)	904
Services & Rentals	2,698	877	353	524
Total	$ 25,589	$ 2,888	$ 214	$ 2,674

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES
Six Months Ended June 30, 2005

Segment	Revenues	Pre-tax Income	Income Tax	Income from Continuing Operations
Water Activities	$21,910	$3,563	$1,102	$2,461
Real Estate Transactions	475	427	166	261
Services & Rentals	2,100	750	290	460
Total	$24,485	$4,740	$1,558	$3,182

	June 30, 2006	December 31, 2005
Total Plant and Other Investments:		
Water	**$ 256,048**	$ 251,511
Non-Water	**633**	733
	256,681	252,244
Other Assets:		
Water	**36,895**	46,746
Non-Water	**11,962**	7,045
	48,857	53,791
Total Assets	**$ 305,538**	$ 306,035

7. Sale of Barnstable Water Company Assets Discontinued Operations

On May 20, 2005, the Company completed the sale of the assets of one of its Massachusetts subsidiaries, the Barnstable Water Company (BWC), to the Town of Barnstable, Massachusetts. Upon the closing of the deal, the Town of Barnstable and BWC entered into a one year management contract for BWC to provide the Town with full operating and management services for the water system s operations. Under the terms of the one year management contract, BWC was paid $130,000 a month for operating and management services performed by BWC for the Town of Barnstable. This management contract could be terminated within the 12 month period by 30 days written notice by either party. In January 2006, the Company received notice of termination. The management contract was terminated on February 7, 2006.

The Company received $10.0 million in gross proceeds from the sale of its water utility assets, advances, and contribution in aid of construction. The gain, net of income taxes of $1.6 million, was $3.0 million in 2005 and has been included in Net Income from Discontinued Operations.

The sale of BWC s assets has been classified as Discontinued Operations in the Consolidated Statements of Income as there will be no continuing involvement due to the termination of the management contract with the Town of Barnstable. All of the results of BWC, including current and prior years and the gain on the sale of the utility s assets, have been reclassified and are included as Discontinued Operations .

8. Sale of Barlaco Assets

The agreement the Town of Barnstable entered into with the Company to purchase the BWC assets also included a provision whereby the Town of Barnstable would acquire, through a bargain purchase, all the land owned by BARLACO, another of our Massachusetts subsidiaries, for an additional $1,000,000. The BARLACO land was sold in February 2006. The Company currently estimated the gain on the bargain land sale for 2006 as approximately $900,000.

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

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

Regulatory Matters and Inflation

In February 2006, the Company filed an application with the DPUC to merge all of its Connecticut subsidiaries into Connecticut Water. On April 20, 2006, the DPUC approved these mergers. The Company completed these mergers on May 31, 2006. On July 18, 2006, the Company filed a rate application with the DPUC for the newly merged Connecticut Water requesting an increase in rates of approximately $14.6 million or 30%. No assurance can be given that the DPUC will approve all of the rate relief requested by the Company. The Company expects a decision in this rate case by January 2007.

In November 2005, the Company announced its plans to acquire South Coventry Water Supply Company, a water company with 131 customers. On June 30, 2006 the Company filed an application with the DPUC for approval of the acquisition. A decision is expected in October 2006.

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 regulatory commissions to which the Company s subsidiaries are 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.

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 Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (FAS 71), revenue recognition, and pension plan accounting. Each of these accounting policies and the application of critical accounting policies and estimates was discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 and first quarter Form 10-Q. There were no significant changes in the application of critical accounting policies or estimates during the second quarter of 2006.

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 sections of the Company s 2005 Form 10-K filed on March 31, 2006 and first quarter Form 10-Q filed on May 10, 2006.

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 current and future years will also depend upon a number of other factors, such as the ability to maintain our operating costs at 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 companies, including the outcome of our rate application to the DPUC which was filed on July 18, 2006. The Company expects a decision in this rate case by January 2007.

The Company believes that the factors described above, as well as those described in Commitments and Contingencies in Item 7 of its Annual Report on Form 10-K may have significant impact, either alone or in the aggregate, on the

Company s earnings and profitability in fiscal years 2006 and beyond. Please also review carefully the risks and uncertainties described below under the heading Forward Looking Information .

Based upon the Company s current projections, it believes that its Net Income from Continuing Operations for the year 2006, excluding the gain from the sale of BARLACO assets in February 2006, will be materially reduced from the income levels reported for the years 2003, 2004 and 2005. This reduction will likely be primarily attributable to lower net income (in the form of reduced tax benefits) related to the Company s land disposition program, excluding the BARLACO land sale. Since the sale of the assets of BWC, the results of operations for BWC have been included in discontinued operations, including any income earned under the management contract which terminated on February 7, 2006. In addition, the regulated water company subsidiaries increased operating costs, including depreciation on their investments in utility plant, has required the Company s primary subsidiary, The Connecticut Water Company, to seek rate relief on July 18, 2006. Based upon appropriate recovery of these costs in a timely manner based upon the recent rate increase application filed, and taking into account the other factors discussed impacting the profitability and earnings, the Company believes that its net income should return to levels achieved in recent years. However, there can be no assurance that the Company will be able to recover costs in an appropriate and timely manner in this rate proceeding.

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 capital resources.

Interim Bank Loans Payable at June 30, 2006 were $4.75 million.

We consider the current $15 million lines of credit with three banks adequate to finance any expected short-term borrowing requirements that may arise during the next twelve months. All the lines have one-year lives and will expire on different dates in 2006. We expect to renew the lines in 2006 and 2007. Interest expense charged on interim bank loans will fluctuate based on market interest rates.

The Company s 2005 year end balances that were in Short-Term Investments of approximately $6.8 million, and Restricted Cash of approximately $2.6 million, have been liquidated with the exception of $307,000 remaining in Restricted Cash. The funds were used to decrease the amount of Interim Bank Loans Payable which otherwise would have increased due to the Company s investment in new Utility Plant.

Results of Operations

The following factors had a significant effect upon the Company s net income for the three months ended June 30, 2006 as compared with the net income for the same period last year.

Income from continuing operations for the three months ended June 30, 2006 decreased from that of the prior year by $206,000, which reduced earnings from continuing operations per basic average common share by $0.03 to $0.12. This decrease in income is broken down by business segment as follows:

Business Segment	Increase (Decrease) Income
Water Activities	$ (198,000)
Real Estate Transactions	(20,000)
Services and Rentals	12,000
Total	$ (206,000)

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CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

The $198,000 decrease in the Water Activity segment s net income was due primarily to the net effects of variances listed below.

a $580,000 increase in Operation and Maintenance expense due primarily to the following expense increases (decreases) (in thousands):

Employee Benefit Costs	$ 488
Labor	320
Utility Costs	78
Outside Services	(326)
Other	20
Total	$ 580

a $374,000 increase in Interest and Debt Expense due primarily to two new long-term debt issuances in the fourth quarter of 2005 and higher interest rates on the variable rate debt.

Partially offset by the following:

a $182,000 decrease in Operating Income Tax Expense primarily due to lower pretax net income and a lower effective tax rate due to flow though accounting related to book/tax timing differences. Our effective tax rate was 21.0% in 2006 compared to 28.3% in 2005. The decline in the effective rate is primarily due to a larger pension contribution in 2006 than in 2005.

a $442,000 increase in Operating Revenue primarily due to increased rates in 2006 charged to customers of the Company s Crystal division following the December 2005 rate decision as well as an increase in fire protection charges and increased customer base as compared to the same period last year.

The following factors had a significant effect upon the Company s net income for the six months ended June 30, 2006 as compared with the net income for the same period last year.

Income from continuing operations for the six months ended June 30, 2006 decreased from that of the prior year by $508,000, which reduced earnings from continuing operations per basic average common share by $0.07 to $0.33. This decrease in income is broken down by business segment as follows:

Business Segment	**Increase (Decrease) Income**
Water Activities	$ (1,215,000)
Real Estate Transactions	643,000
Services and Rentals	64,000
Total	$ (508,000)

The $1,215,000 decrease in the Water Activity segment s net income was due primarily to the net effects of variances listed below.

a $1,543,000 increase in Operation and Maintenance expense due primarily to the following expense increases (decreases) (in thousands):

Employee Benefit Costs	$ 788
Labor	605
Utility Costs	196
Other	(46)

Total	$ 1,543

a $675,000 increase in Interest and Debt Expense due primarily to two new long-term debt issuances in the fourth quarter of 2005 and higher interest rates on the variable rate debt.

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

a $24,000 decrease in Operating Revenue primarily due to lower consumption in the first six months of 2006 as compared to the same period last year.

partially offset by a $847,000 decrease in Operating Income Tax Expense primarily due to lower pretax net income and a lower effective tax rate due to flow though accounting related to book/tax timing differences. The effective tax rate was 25.6% in 2006 compared to 33.5% in 2005. The decline in the effective rate is primarily due to a larger pension contribution in 2006 than in 2005.

The $643,000 increase in the Real Estate Segment was primarily due to the sale of the Barlaco land that was sold to the Town of Barnstable in February 2006.

The $64,000 increase in the Services and Rentals segment s net income was primarily due to higher revenues from the Company s Linebacker® Service Line Maintenance program.

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, 2005 and as updated in the Company s March 31, 2006 Form 10-Q, other that the items mentioned below.

On July 18, 2006, Connecticut Water Company filed a rate application with the DPUC, requesting an increase in rates of $14.6 million or approximately 30%. The need for the rate increase is, in part, based upon an investment of approximately $130 million in Utility Plant since 1991, the time of the Company s last rate increase. In addition, increased operating costs for power, labor and general operating needs is being requested. No assurance can be given that the DPUC will approve all of the rate relief requested by the Company. The Company expects a decision in this rate case by January 2007.

Forward Looking Information

This report, including management s discussion and analysis, contains certain forward-looking statements regarding the Company s results of operations and financial position. These forward-looking statements are based on current information and expectations, and are subject to risks and uncertainties, which could cause the Company s actual results to differ materially from expected results.

Our water companies are subject to various federal and state regulatory agencies concerning water quality and environmental standards. Generally, the water industry is materially dependent on the adequacy of approved rates to allow for a fair rate of return on the investment in utility plant. The ability to maintain our operating costs at the lowest possible level, while providing good quality water service, is beneficial to customers and stockholders. Profitability is also dependent on the timeliness and amount of rate relief, including the rate relief sought in the Company s rate case application to the DPUC filed on July 18, 2006, and numerous factors over which we have little or no control, such as the quantity of rainfall and temperature, industrial demand, financing costs, energy rates, tax rates, stock market trends which may affect the return earned on pension assets, and compliance with environmental and water quality regulations. The profitability of our other revenue sources is subject to the amount of land we have available for sale and/or donation, the demand for the land, the continuation of the current state tax benefits relating to the donation of land for open space purposes, regulatory approval of land dispositions, the demand for telecommunications antenna site leases and the successful extensions and expansion of our service contract work. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

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 exposure to derivative financial instruments through an interest rate swap agreement. The Company has no other financial instruments with significant credit risk or off-balance sheet risks and 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 and its use of the interest rate swap agreement discussed below. The Company has $15,000,000 of variable rate lines of credit with three banks, under which interim bank loans payable at June 30, 2006 were $4,750,000.

During March 2004, The Connecticut Water Company entered into a five-year interest rate swap transaction in connection with the refunding of its First Mortgage Bonds (Series V). The swap agreement provides for The Connecticut Water Company s exchange of floating rate interest payment obligations for fixed rate interest payment obligations on a notional principal amount of $12,500,000. The purpose of the interest rate swap is to manage the Company s exposure to fluctuations in prevailing interest rates. The Company does not enter into derivative financial contracts for trading or speculative purposes and does not use leveraged instruments.

Management does not believe that changes in interest rates will have a material effect on income or cash flow during the next twelve months, although there can be no assurances that interest rates will not significantly change.

Part I, Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2006, 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 Rule 13a-14(c) and 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 disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Securities Exchange Act of 1934 is accumulated and communicated to management, including the Company s Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding disclosure to be made within the time periods specified in the SEC s rules and forms.

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 ending June 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Part II, Item 1: Legal Proceedings

We are involved in various legal proceedings. 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 Report on Form 10-K for the fiscal year ended December 31, 2005. There have been no material changes to our risk factors from those disclosed in our Annual Report of Form 10-K for the fiscal year ended December 31, 2005.

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

No stock repurchases were made during the quarter ended June 30, 2006.

Part II, Item 5: Other Information

On August 4, 2006, the Company announced that New England Water Utility Services, a wholly owned subsidiary, would provide the total operation, management and maintenance of the University of Connecticut s (the University) water systems at two campuses. The Company and the University have signed an operating agreement for a two-year term with an option to extend the agreement for two additional one-year terms. If extended for both additional terms, the total agreement s value will exceed $1.75 million. The Company has been providing operating services to the University s water systems on an interim basis since November 2005. This new agreement is an extension of the interim agreement. The Company anticipates that it will be able to assist the University in providing needed capital improvements to the water systems over the length of the agreement.

In May 2006, the Company filed with the DPUC a supply contract application to purchase water from the Regional Water Authority and to treat this purchased water as a regulatory asset on which the Company may earn a return. The purpose of the supply contract is to allow the Company to meet future supply needs in a cost-effective manner. The DPUC is currently reviewing this application and a hearing was held on August 7, 2006. The Company expects a decision on this application by early October 2006.

In November 2005, the Company announced its plans to acquire South Coventry Water Supply Company, a water company with 131 customers. On June 30, 2006, the Company filed an application with the DPUC for approval of the acquisition. A decision is expected in October 2006.

On August 8, 2006, to gain operating efficiencies, the following wholly owned subsidiary companies were merged: Connecticut Water Emergency Services, Inc. into New England Water Utility Services, Inc. and Crystal Water Utilities Corporation into Chester Realty.

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CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

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.)
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

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES
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: August 9, 2006 By: /s/ David C. Benoit

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

Date: August 9, 2006 By: /s/ Trudie M. Edwards

Trudie M. Edwards
Controller