CONSOLIDATED WATER CO LTD
Form 10-Q
November 10, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transaction 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	**N/A**
(Address of principal executive offices)	(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 x No ¨

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

Yes x 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 x
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 x

As of November 3, 2014, 14,703,098 shares of the registrant’s common stock, with US$0.60 par value, were outstanding.

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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.

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, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 33,582,329	$ 33,626,516
Certificate of deposit	5,000,000	-
Restricted cash	498,929	-
Marketable securities	-	8,587,475
Accounts receivable, net	12,234,168	18,859,560
Inventory	1,578,188	1,383,135
Prepaid expenses and other current assets	2,771,365	2,435,127
Current portion of loans receivable	1,698,576	1,691,102
Total current assets	57,363,555	66,582,915
Property, plant and equipment, net	56,041,873	58,602,886
Construction in progress	2,860,402	1,450,417
Inventory, non-current	4,341,636	4,204,089
Loans receivable	6,052,985	7,337,177
Investment in OC-BVI	5,956,657	6,623,448
Intangible assets, net	966,922	1,096,488
Goodwill	3,499,037	3,499,037
Investment in land	20,557,353	13,175,566
Other assets	2,738,551	2,792,831
Total assets	$ 160,378,971	$ 165,364,854
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other current liabilities	$ 5,465,197	$ 7,157,896
Dividends payable	1,165,937	1,164,026
Demand loan payable	9,500,000	-
Current portion of long term debt	-	5,205,167
Land purchase obligation	-	10,050,000
Total current liabilities	16,131,134	23,577,089

Other liabilities	227,762	289,392
Total liabilities	16,358,896	23,866,481
Commitments and contingencies		
Equity		
Consolidated Water Co. Ltd. stockholders' equity		
Redeemable preferred stock, $0.60 par value. Authorized 200,000 shares; issued and outstanding 37,026 and 37,408 shares, respectively	22,216	22,445
Class A common stock, $0.60 par value. Authorized 24,655,000 shares; issued and outstanding 14,703,098 and 14,686,197 shares, respectively	8,821,859	8,811,718
Class B common stock, $0.60 par value. Authorized 145,000 shares; none issued or outstanding	-	-
Additional paid-in capital	83,691,069	83,381,387
Retained earnings	49,138,412	47,155,548
Cumulative translation adjustment	(465,833)	(471,983)
Total Consolidated Water Co. Ltd. stockholders' equity	141,207,723	138,899,115
Non-controlling interests	2,812,352	2,599,258
Total equity	144,020,075	141,498,373
Total liabilities and equity	$ 160,378,971	$ 165,364,854

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Retail water revenues	$ 5,936,623	$ 5,023,591	$ 18,548,841	$ 17,598,200
Bulk water revenues	9,905,723	10,239,552	29,831,653	30,258,814
Services revenues	1,178,710	175,438	1,921,004	706,144
Total revenues	17,021,056	15,438,581	50,301,498	48,563,158
Cost of retail revenues	2,945,756	2,661,463	8,996,615	8,366,391
Cost of bulk revenues	7,113,039	7,280,151	21,120,498	21,514,909
Cost of services revenues	1,261,946	270,082	2,143,599	836,945
Total cost of revenues	11,320,741	10,211,696	32,260,712	30,718,245
Gross profit	5,700,315	5,226,885	18,040,786	17,844,913
General and administrative expenses	3,984,956	4,308,851	13,108,750	11,472,549
Income from operations	1,715,359	918,034	4,932,036	6,372,364
Other income (expense):				
Interest income	334,499	232,820	874,203	582,704
Interest expense	(70,515)	(117,242)	(413,783)	(374,512)
Profit sharing income from OC-BVI	30,375	20,250	81,000	335,361
Equity in earnings of OC-BVI	81,480	55,359	221,809	919,552
Other	(101,297)	(58,722)	(20,804)	93,955
Other income (expense), net	274,542	132,465	742,425	1,557,060
Net income	1,989,901	1,050,499	5,674,461	7,929,424
Income attributable to non-controlling interests	107,209	141,809	377,167	424,882
Net income attributable to Consolidated Water Co. Ltd. stockholders	$ 1,882,692	$ 908,690	$ 5,297,294	$ 7,504,542
Basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	$ 0.13	$ 0.06	$ 0.36	$ 0.51
Diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	$ 0.13	$ 0.06	$ 0.36	$ 0.51
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	14,700,939	14,644,740	14,695,446	14,626,755
Diluted earnings per share	14,763,914	14,734,916	14,764,127	14,682,186

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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Income	$ 1,989,901	$ 1,050,499	$ 5,674,461	$ 7,929,424
Other comprehensive income (loss)				
Foreign currency translation adjustment	(29,873)	(303,195)	6,473	(357,632)
Total other comprehensive income (loss)	(29,873)	(303,195)	6,473	(357,632)
Comprehensive income	1,960,028	747,304	5,680,934	7,571,792
Comprehensive income attributable to the non-controlling interest	105,716	126,649	377,491	407,000
Comprehensive income attributable to Consolidated Water Co. Ltd. stockholders	$ 1,854,312	$ 620,655	$ 5,303,443	$ 7,164,792

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

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CONSOLIDATED WATER CO. LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30,	
	2014	2013
Net cash provided by operating activities	$ 22,735,534	$ 9,566,551
Cash flows from investing activities		
Purchase of certificate of deposit	(5,000,000)	(5,000,000)
Additions to property, plant and equipment and construction in progress	(2,776,205)	(2,958,494)
Proceeds from sale of equipment	11,400	13,740
Distribution of earnings from OC-BVI	969,600	1,249,875
Collections on loans receivable	1,276,718	1,351,965
Payment for investment in land	(17,431,787)	(2,975,566)
Restriction on cash balance	(498,929)	-
Net cash used in investing activities	(23,449,203)	(8,318,480)
Cash flows from financing activities		
Dividends paid	(3,478,332)	(3,295,765)
Repurchase of redeemable preferred stock, net	(12,746)	9,313
Proceeds received from exercise of stock options	-	302,807
Principal repayments of long term debt	(5,301,327)	(1,283,427)
Capital contribution from non-controlling interest	-	142,105
Proceeds received from demand loan payable	10,000,000	-
Repayment of demand loan payable	(500,000)	-
Net cash provided by (used in) financing activities	707,595	(4,124,967)
Effect of exchange rate changes on cash	(38,113)	(192,574)
Net decrease in cash and cash equivalents	(44,187)	(3,069,470)
Cash and cash equivalents at beginning of period	33,626,516	33,892,655
Cash and cash equivalents at end of period	$ 33,582,329	$ 30,823,185
Interest paid in cash	$ 154,692	$ 294,603
Non-cash investing and financing activities		
Issuance of 5,957 and 10,180, respectively, shares of redeemable preferred stock for services rendered	$ 65,289	$ 110,249
Issuance of 12,302 and 11,131, respectively, shares of common stock for services rendered	$ 173,458	$ 82,369
Conversion (on a one-to-one basis) of 4,599, and 3,660, respectively, shares of redeemable preferred stock to common stock	$ 2,759	$ 2,196
Dividends declared but not paid	$ 1,105,510	$ 1,101,345

Obligation incurred (paid) for investment in land	$ (10,050,000)	$ 10,050,000
Transfers from inventory to property, plant and equipment and construction in progress	$ 113,691	$ 181,875

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

CONSOLIDATED WATER CO. LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Principal activity

Consolidated Water Co. Ltd. and its subsidiaries (collectively, the "Company") use reverse osmosis technology to produce potable water from seawater. The Company processes and supplies water to its customers in the Cayman Islands, Belize, The Bahamas, the British Virgin Islands and Indonesia. The Company sells water to a variety of customers, including public utilities, commercial and tourist properties, residential properties and government entities. The base price of water supplied by the Company, and adjustments thereto, are determined by the terms of a retail license and various supply contracts, which provide for adjustments based upon the movement in the government price indices specified in the license and contracts, as well as monthly adjustments for changes in the cost of energy. The Company also provides engineering and design services for water plant construction, and manages and operates water plants owned by others.

2. Accounting policies

Basis of presentation:

The accompanying condensed consolidated financial statements include the accounts of the Company's (i) wholly-owned subsidiaries: Aquilex, Inc., Cayman Water Company Limited ("Cayman Water"), Consolidated Water (Belize) Limited ("CW-Belize"), Ocean Conversion (Cayman) Limited ("OC-Cayman"), DesalCo Limited ("DesalCo"), Consolidated Water Cooperatief, U.A. ("CW-Coop"); and (ii) majority-owned subsidiaries: Consolidated Water (Bahamas) Ltd. ("CW-Bahamas"), Consolidated Water (Asia) Pte. Limited, PT Consolidated Water Bali ("CW-Bali") and N.S.C. Agua, S.A. de C.V. ("NSC"). The Company's investment in its affiliate, Ocean Conversion (BVI) Ltd. ("OC-BVI"), is accounted for using the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying interim condensed consolidated financial statements are unaudited. These condensed consolidated financial statements reflect all adjustments (which are of a normal recurring nature) that, in the opinion of management, are necessary to fairly present the Company's financial position, results of operations and cash flows as of and for the periods presented. The results of operations for these interim periods are not necessarily indicative of the operating results for future periods, including the fiscal year ending December 31, 2014.

These condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”) relating to interim financial statements and in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted in these condensed financial statements pursuant to SEC rules and regulations, although the Company believes that the disclosures made herein are adequate to make the information not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

Foreign currency:

The Company’s reporting currency is the United States dollar (“US$”). The functional currency of the Company and its foreign subsidiaries (other than NSC) is the currency for each respective country. The functional currency for NSC is the US$. The exchange rates between the Cayman Islands dollar, the Belize dollar, and the Bahamian dollar are fixed to the US$. CW-Coop conducts business in US$ and euros, CW-Bali conducts business in US$ and Indonesian rupiahs, and NSC conducts business in US$ and Mexican pesos. The exchange rates for conversion of euros, Indonesian rupiahs and Mexican pesos into US$ vary based upon market conditions. Net foreign currency gains (losses) arising from transactions conducted in foreign currencies were ($61,918) and ($117,309) for the three months ended September 30, 2014 and 2013, respectively, and ($15,238) and ($84,614) for the nine months ended September 30, 2014 and 2013, respectively, and are included in “Other income (expense)” in the accompanying condensed consolidated statements of income.

Comprehensive income:

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income (loss) is the total of net income and other comprehensive income (loss) which, for the Company, is comprised entirely of foreign currency translation adjustments related to CW-Bali.

Comparative amounts:

Certain amounts reported in the financial statements issued in prior periods have been reclassified herein to conform to the current period’s presentation. These reclassifications had no effect on consolidated net income.

3. Fair value measurements

As of September 30, 2014 and December 31, 2013, the carrying amounts of cash and cash equivalents, certificate of deposit, accounts receivable, accounts payable and other current liabilities, dividends payable and the demand loan payable approximate their fair values due to the nature of these items and their short term maturities. Management considers that the carrying amounts for loans receivable as of September 30, 2014 and December 31, 2013, approximate their fair values as their interest rates approximate market rates for similar instruments.

Under US GAAP, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The US GAAP guidance for fair value also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

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

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The following table presents the Company’s fair value hierarchy for assets and liabilities measured at fair value as of September 30, 2014 and December 31, 2013:

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Recurring				
Restricted cash	$498,929	$-	$-	$498,929
Certificate of deposit	-	5,000,000	-	5,000,000
Total recurring	$498,929	$5,000,000	$-	$5,498,929
Nonrecurring				
Investment in OC-BVI	$-	$-	$5,956,657	$5,956,657

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Recurring				
Marketable securities	$8,587,475	$ -	$-	$8,587,475
Nonrecurring				
Investment in OC-BVI	$-	$ -	$6,623,448	$6,623,448

The activity for Level 3 investments for the nine months ended September 30, 2014 was as follows:

Balance as of December 31, 2013	$6,623,448
Profit sharing and equity from earnings of OC-BVI	302,809
Distributions received from OC-BVI	(969,600)
Balance as of September 30, 2014	$5,956,657

4. Segment information

The Company has three reportable segments: retail, bulk and services. The retail segment operates the water utility for the Seven Mile Beach and West Bay areas of Grand Cayman Island pursuant to an exclusive license granted by the Cayman Islands government. The retail segment also includes a retail water operation in Bali, Indonesia that sells water to resort properties. The bulk segment supplies potable water to government utilities in Grand Cayman, the Bahamas and Belize under long-term contracts. The services segment designs, constructs and sells desalination plants, and provides desalination plant management and procurement services, to Company subsidiary and affiliated companies as well as third parties. Consistent with prior periods, we record all non-direct general and administrative expenses in our retail business segment and do not allocate any of these non-direct expenses to our other two business segments.

The Company evaluates each segment's performance based upon its income (loss) from operations. All intercompany transactions are eliminated for segment presentation purposes.

The Company's segments are strategic business units that are managed separately because, while all segments derive their revenues from desalination-related activities, each segment sells different products and/or services, serves customers with distinctly different needs and generates different gross profit margins.

	Three Months Ended September 30, 2014			
	Retail	Bulk	Services	Total
Revenues	$5,936,623	$9,905,723	$1,178,710	$17,021,056
Cost of revenues	2,945,756	7,113,039	1,261,946	11,320,741
Gross profit (loss)	2,990,867	2,792,684	(83,236)	5,700,315
General and administrative expenses	2,740,209	510,288	734,459	3,984,956
Income (loss) from operations	$250,658	$2,282,396	$(817,695)	1,715,359
Other income, net				274,542
Consolidated net income				1,989,901
Income attributable to non-controlling interests				107,209
				$1,882,692

Net income attributable to Consolidated Water Co. Ltd.
stockholders

Depreciation and amortization expenses for the three months ended September 30, 2014 for the retail, bulk and services segments were $592,261, $738,405 and $22,474, respectively.

	Three Months Ended September 30, 2013			
	Retail	Bulk	Services	Total
Revenues	$5,023,591	$10,239,552	$175,438	$15,438,581
Cost of revenues	2,661,463	7,280,151	270,082	10,211,696
Gross profit (loss)	2,362,128	2,959,401	(94,644)	5,226,885
General and administrative expenses	2,656,217	372,812	1,279,822	4,308,851
Income (loss) from operations	$(294,089)	$2,586,589	$(1,374,466)	918,034
Other income, net				132,465
Consolidated net income				1,050,499
Income attributable to non-controlling interests				141,809
Net income attributable to Consolidated Water Co. Ltd. stockholders				$908,690

Depreciation and amortization expenses for the three months ended September 30, 2013 for the retail, bulk and services segments were $536,229, $805,641 and $73,181, respectively.

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	Nine Months Ended September 30, 2014			
	Retail	Bulk	Services	Total
Revenues	$18,548,841	$29,831,653	$1,921,004	$50,301,498
Cost of revenues	8,996,615	21,120,498	2,143,599	32,260,712
Gross profit (loss)	9,552,226	8,711,155	(222,595)	18,040,786
General and administrative expenses	8,471,730	1,270,661	3,366,359	13,108,750
Income (loss) from operations	1,080,496	7,440,494	(3,588,954)	4,932,036
Other income, net				742,425
Consolidated net income				5,674,461
Income attributable to non-controlling interests				377,167
Net income attributable to Consolidated Water Co. Ltd. stockholders				$5,297,294

Depreciation and amortization expenses for the nine months ended September 30, 2014 for the retail, bulk and services segments were $1,823,757, $2,215,141 and $79,922, respectively.

	Nine Months Ended September 30, 2013			
	Retail	Bulk	Services	Total
Revenues	$17,598,200	$30,258,814	$706,144	$48,563,158
Cost of revenues	8,366,391	21,514,909	836,945	30,718,245
Gross profit (loss)	9,231,809	8,743,905	(130,801)	17,844,913
General and administrative expenses	7,966,975	1,136,021	2,369,553	11,472,549
Income (loss) from operations	1,264,834	7,607,884	(2,500,354)	6,372,364
Other income, net				1,557,060
Consolidated net income				7,929,424
Income attributable to non-controlling interests				424,882
Net income attributable to Consolidated Water Co. Ltd. stockholders				$7,504,542

Depreciation and amortization expenses for the nine months ended September 30, 2013 for the retail, bulk and services segments were $1,555,128, $2,337,766 and $219,544, respectively.

	As of September 30, 2014			
	Retail	Bulk	Services	Total
Property plant and equipment, net	$25,727,376	$29,737,581	$576,916	$56,041,873
Construction in progress	1,862,644	997,758	-	2,860,402
Goodwill	1,170,511	2,328,526	-	3,499,037
Investment in land	-	-	20,557,353	20,557,353
Total assets	51,970,909	83,928,479	24,479,583	160,378,971

As of December 31, 2013

	Retail	Bulk	Services	Total
Property plant and equipment, net	$26,339,461	$31,736,774	$526,651	$58,602,886
Construction in progress	1,181,628	98,807	169,982	1,450,417
Goodwill	1,170,511	2,328,526	-	3,499,037
Investment in land	-	-	13,175,566	13,175,566
Total assets	65,853,375	84,300,971	15,210,508	165,364,854

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5. Earnings per share

Earnings per share ("EPS") are computed on a basic and diluted basis. Basic EPS is computed by dividing net income (less preferred stock dividends) available to common stockholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS assumes the issuance of common shares for all potential common shares outstanding during the reporting period and, if dilutive, the effect of stock options as computed under the treasury stock method.

The following summarizes information related to the computation of basic and diluted EPS for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income attributable to Consolidated Water Co. Ltd. Common stockholders	$ 1,882,692	$ 908,690	$ 5,297,294	$ 7,504,542
Less: preferred stock dividends	(2,777)	(2,885)	(8,722)	(8,655)
Net income available to common shares in the determination of basic earnings per common share	$ 1,879,915	$ 905,805	$ 5,288,572	$ 7,495,887
Weighted average number of common shares in the determination of basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	14,700,939	14,644,740	14,695,446	14,626,755
Plus:				
Weighted average number of preferred shares outstanding during the period	39,348	39,680	38,256	33,888
Potential dilutive effect of unexercised options	23,627	50,496	30,425	21,543
Weighted average number of shares used for determining diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	14,763,914	14,734,916	14,764,127	14,682,186

6. Investment in OC-BVI

The Company owns 50% of the outstanding voting common shares and a 43.5% equity interest in the profits of Ocean Conversion (BVI) Ltd. ("OC-BVI"). The Company also owns certain profit sharing rights in OC-BVI that raise its effective interest in the profits of OC-BVI to approximately 45%. Pursuant to a management services agreement, OC-BVI pays the Company monthly fees for certain engineering and administrative services. OC-BVI's sole customer is the Ministry of Communications and Works of the Government of the British Virgin Islands (the "Ministry") to which it sells bulk water.

The Company's equity investment in OC-BVI amounted to $5,956,657 and $6,623,448 as of September 30, 2014 and December 31, 2013, respectively.

Until 2009, substantially all of the water sold by OC-BVI to the Ministry was initially supplied under a Water Supply Agreement dated May 1990 (the "1990 Agreement") and was produced by one desalination plant with a capacity of 1.7 million gallons per day located at Baughers Bay, Tortola (the "Baughers Bay plant"). As discussed later in this Note (see "*Baughers Bay Litigation"*), the Government of the British Islands (the "BVI government"), assumed the operating responsibilities for the Baughers Bay plant in March 2010. During 2007, OC-BVI completed the construction of a desalination plant with a capacity of 720,000 gallons per day located at Bar Bay, Tortola (the "Bar Bay plant"). OC-BVI and the BVI government executed a seven-year contract (the "Bar Bay Agreement") for this plant on March 4, 2010. Under the terms of the Bar Bay Agreement, OC-BVI is required to deliver up to 600,000 gallons of water per day to the BVI government from the Bar Bay plant. The Bar Bay Agreement includes a seven-year extension option exercisable by the BVI government and required OC-BVI to complete a storage reservoir on the BVI government site by no later than March 4, 2011. OC-BVI has not commenced construction of this storage reservoir due to the BVI government's failure to pay (i) the full amount of invoices for the water provided by the Bar Bay plant on a timely basis; and (ii) the remaining amount due under the court ruling for the Baughers Bay litigation (see discussion that follows).

Summarized financial information of OC-BVI is presented as follows:

	September 30, 2014	December 31, 2013
Current assets	$ 1,963,437	$ 3,422,328
Non-current assets	5,483,433	5,923,387
Total assets	$ 7,446,870	$ 9,345,715

	September 30, 2014	December 31, 2013
Current liabilities	$ 284,754	$ 717,887
Non-current liabilities	1,332,450	1,688,850
Total liabilities	$ 1,617,204	$ 2,406,737

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	$ 1,153,994	$ 1,174,629	$ 3,530,763	$ 3,588,203
Gross profit	$ 461,820	$ 403,815	$ 1,382,261	$ 1,403,346
Income from operations	$ 254,876	$ 175,386	$ 650,690	$ 679,085
Other income (expense), net (1)	$ (60,749)	$ (40,500)	$ (128,002)	$ 1,456,480
Net income attributable to controlling interests	$ 187,183	$ 127,175	$ 509,555	$ 2,112,455

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(1) Includes income of $2.0 million related to the Court award - Baughers Bay litigation, for the nine months ended September 30, 2013.

The Company recognized $81,480 and $55,359 in earnings from its equity investment in OC-BVI for the three months ended September 30, 2014 and 2013, respectively. The Company recognized $221,809 and $919,552 in earnings from its equity investment in OC-BVI for the nine months ended September 30, 2014 and 2013, respectively. The Company recognized $30,375 and $20,250 in profit sharing income from its profit sharing agreement with OC-BVI for the three months ended September 30, 2014 and 2013, respectively. The Company recognized $81,000 and $335,361 in profit sharing income from its profit sharing agreement with OC-BVI for the nine months ended September 30, 2014 and 2013, respectively.

For the three months ended September 30, 2014 and 2013, the Company recognized $214,224 and $175,438, respectively, in revenues from its management services agreement with OC-BVI. For the nine months ended September 30, 2014 and 2013, the Company recognized $619,136 and $660,734, respectively, in revenues from its management services agreement with OC-BVI. Revenues from the management services agreement are reflected in the services segment. The Company's recorded value of this management services agreement, which is reflected as an intangible asset on the Company's condensed consolidated balance sheet, was approximately $218,000 and $285,000 as of September 30, 2014 and December 31, 2013, respectively.

Baughers Bay Litigation

Under the terms of the 1990 Agreement between OC-BVI and the BVI government, upon the expiration of its initial seven-year term in May 1999, the 1990 Agreement would automatically be extended for another seven-year term unless the BVI government provided notice, at least eight months prior to such expiration, of its decision to purchase the plant from OC-BVI at the agreed upon amount under the 1990 Agreement of approximately $1.42 million. In correspondence between the parties from late 1998 through early 2000, the BVI government indicated that it intended to purchase the plant but would be amenable to negotiating a new water supply agreement, and that it considered the 1990 Agreement to be in force on a monthly basis until negotiations between the BVI government and OC-BVI were concluded. Occasional discussions were held between the parties since 2000 without resolution of the matter. OC-BVI continued to supply water from the plant and expended approximately $4.7 million between 1995 and 2003 to significantly expand the production capacity of the plant beyond that contemplated in the 1990 Agreement.

In 2006, the BVI government took the position that the seven-year extension of the 1990 Agreement had been completed and that it was entitled to ownership of the Baughers Bay plant. In response, OC-BVI disputed the BVI government's contention that the original terms of the 1990 Agreement remained in effect.

During 2007, the BVI government significantly reduced the amount and frequency of its payments for the water being supplied by OC-BVI and filed a lawsuit with the Eastern Caribbean Supreme Court (the “Court”) seeking ownership of the Baughers Bay plant. OC-BVI filed a counterclaim with the Court that it was entitled to continued possession and operation of the Baughers Bay plant until the BVI government paid OC-BVI approximately $4.7 million, which OC-BVI believed represented the value of the Baughers Bay plant at its expanded production capacity. OC-BVI subsequently filed claims with the Court seeking payment for water sold and delivered to the BVI government through May 31, 2009 at the contract prices in effect before the BVI government asserted its purported right of ownership of the plant.

The Court ruled on this litigation in 2009, determining that (i) the BVI government was entitled to immediate ownership and possession of the Baughers Bay plant and dismissed OC-BVI’s claim for compensation of approximately $4.7 million for the expenditures made to expand the production capacity of the plant; (ii) OC-BVI was entitled to full payment of water invoices issued up to December 20, 2007, which had been calculated under the terms of the original 1990 Agreement; and (iii) OC-BVI was entitled to the amount of $10.4 million for water produced by OC-BVI from the Baughers Bay plant subsequent to December 20, 2007. The BVI government made payments to OC-BVI under the Court order of $2.0 million in 2009, $2.0 million in 2010 and $1.0 million in 2011.

OC-BVI filed an appeal with the Eastern Caribbean Court of Appeals (the “Appellate Court”) in 2009 asking the Appellate Court to review the September 17, 2009 ruling by the Court as it related to OC-BVI’s claim for compensation for expenditures made to expand the production capacity of the Baughers Bay plant. The BVI government also filed an appeal with the Appellate Court in 2009 requesting the Appellate Court to reduce the $10.4 million awarded by the Court to OC-BVI for water supplied subsequent to December 20, 2007 to an amount equal to the cost of producing such water.

In March 2010, OC-BVI vacated the Baughers Bay plant and the BVI government assumed direct responsibility for the plant’s operations.

In June 2012, the Appellate Court issued the final ruling with respect to the Baughers Bay litigation. This ruling dismissed the BVI government’s appeal against the previous judgment of the Court awarding $10.4 million for the water supplied, and also awarded OC-BVI compensation for improvements made to the plant in the amount equal to the difference between (i) the value of the Baughers Bay plant at the date OC-BVI transferred possession of the plant to the BVI government and (ii) $1.42 million (the purchase price for the Baughers Bay plant under the 1990 Agreement). OC-BVI was also awarded all of its court costs at the trial level and two-thirds of such costs incurred on appeal. Prior to the final ruling, the BVI government had paid only $5.0 million of the original $10.4 million, and the remaining $5.4 million amount due had increased to approximately $6.7 million by the fourth quarter of 2012 due to the court costs awarded by the Appellate Court and the accrued interest due on the aggregate unpaid balance. The BVI government paid OC-BVI $4.7 million of this amount during the fourth quarter of 2012 and the remaining $2.0 million in January 2013. These amounts paid by the BVI government were recognized in OC-BVI’s earnings in the periods in which they were received. To date, OC-BVI and the BVI government have been unable to reach agreement on the value of the plant at the date it was transferred to the BVI government. While OC-BVI and the BVI government have reached agreement on the appraiser to be employed to value the plant, this valuation work has not yet commenced.

Valuation of Investment in OC-BVI

The Company accounts for its investment in OC-BVI under the equity method of accounting for investments in common stock. This method requires recognition of a loss on an equity investment that is other than temporary, and indicates that a current fair value of an equity investment that is less than its carrying amount may indicate a loss in the value of the investment.

As a quoted market price for OC-BVI’s stock is not available, to test for possible impairment of its investment in OC-BVI, the Company estimates its fair value through the use of the discounted cash flow method, which relies upon projections of OC-BVI’s operating results, working capital and capital expenditures. The use of this method requires the Company to estimate OC-BVI’s cash flows from (i) the Bar Bay agreement and (ii) the pending amount awarded by the Appellate Court in the Baughers Bay litigation relating to the value of the Baughers Bay plant transferred by OC-BVI to the BVI government.

The Company estimates the cash flows OC-BVI will receive from its Bar Bay agreement by (i) identifying various possible future scenarios for this agreement, which include the cancellation of the agreement after its initial seven-year term and the exercise by the BVI government of the seven-year extension in the agreement; (ii) estimating the cash flows associated with each possible scenario; and (iii) assigning a probability to each scenario. The Company similarly estimates the cash flows OC-BVI will receive from the BVI government for the amount due under the ruling by the Appellate Court relating to the value of the Baughers Bay plant at the date it was transferred to the BVI government by assigning probabilities to different valuation scenarios. The resulting probability-weighted sum represents the expected cash flows, and the Company’s best estimate of future cash flows, to be derived by OC-BVI from its Bar Bay agreement and the pending Appellate Court award.

The identification of the possible scenarios for the Bar Bay plant agreement and the Baughers Bay plant valuation, the projections of cash flows for each scenario, and the assignment of relative probabilities to each scenario all represent significant estimates made by the Company. While the Company uses its best judgment in identifying these possible scenarios, estimating the expected cash flows for these scenarios and assigning relative probabilities to each scenario, these estimates are by their nature highly subjective and are also subject to material change by the Company’s management over time based upon new information or changes in circumstances.

During the fourth quarter of 2013, after reassessing what the Company believes will be the future demand for water in Tortola, British Virgin Islands, and the probable sources the BVI government will utilize to meet this demand, the Company determined it appropriate to modify the projections of cash flows for OC-BVI that it uses to estimate the fair value of its investment in OC-BVI by increasing (from those used in prior years) the probabilities assigned to those scenarios that result in a lower supply of water or revenue stream from the Bar Bay plant. Based on these current estimates of OC-BVI's cash flows and the Company's resulting estimate of the fair value of its investment in OC-BVI, the Company determined that the carrying value of its investment in OC-BVI exceeded its fair value and recorded an impairment loss on this investment of $200,000. The resulting carrying values of the Company's investment in OC-BVI of approximately $6.0 million and $6.6 million as of September 30, 2014 and December 31, 2013, respectively, are based on the assumptions that the BVI government will honor its obligations under the Bar Bay agreement and (on a probability-weighted basis) that the BVI government will exercise its option to extend the Bar Bay agreement for seven years beyond its initial term, which expires in 2017.

The $6.0 million carrying value of the Company's investment in OC-BVI as of September 30, 2014 exceeds the Company's underlying equity in OC-BVI's net assets by approximately $2.8 million. The Company accounts for this excess as goodwill. The BVI government is OC-BVI's sole customer and substantially all of OC-BVI's revenues are generated from its Bar Bay plant. As the Bar Bay agreement matures and OC-BVI receives (or is determined by the court to not be entitled to receive) the pending Appellate Court award amount assumed due for the value of the Baughers Bay plant, OC-BVI's expected future cash flows, and therefore its fair value computed under the discounted cash flow method, will decrease. Unless OC-BVI obtains an expansion or other modification of its Bar Bay agreement that results in a significant increase in the estimated future cash flows from its Bar Bay plant, the Company will be required to record impairment losses in future periods to reduce the carrying value of its investment in OC-BVI to its then current fair value. These impairment losses will, in the aggregate, equal the underlying $2.8 million in goodwill reflected in the carrying value of the Company's investment in OC-BVI and could have a material adverse effect on the Company's earnings and consolidated statement of operations.

7. N.S.C. Agua, S.A. de C.V.

In May 2010, the Company acquired, through its wholly-owned Netherlands subsidiary, Consolidated Water Cooperatief, U.A. ("Cooperatief"), a 50% interest in N.S.C. Agua, S.A. de C.V. ("NSC"), a development stage Mexican company. The Company has since purchased, through the conversion of a previous loan to NSC, sufficient shares to raise its ownership interest in NSC to 99.9%. NSC was formed to pursue a project encompassing the construction, operation and minority ownership of a 100 million gallon per day seawater reverse osmosis desalination plant to be located in northern Baja California, Mexico and an accompanying pipeline to deliver water to the Mexican potable water infrastructure and the U.S. border. The Company believes such a project can be successful due to what the Company anticipates will be a growing need for a new potable water supply for the areas of northern Baja California, Mexico and Southern California, United States of America ("U.S.").

To complete this project, the Company engaged engineering groups with extensive regional and/or technical experience to prepare preliminary designs and cost estimates for the desalination plant and the proposed pipeline and prepare the environmental impact studies for local, state and federal regulatory agencies. The Company also conducted an equipment piloting plant and water data collection program at the proposed feed water source under a Memorandum of Understanding (the “EPC MOU”) with a global engineering, procurement and construction contractor for large seawater desalination plants. NSC is presently seeking contracts with proposed customers in Mexico and the U.S. for the sale of the desalinated water from the project. NSC will be required to accomplish various additional steps before it can commence construction of the plant and pipeline including, but not limited to, obtaining approvals and permits from various governmental agencies in Mexico, securing contracts with its proposed customers to sell water in sufficient quantities and at prices that make the project financially viable, and obtaining equity and debt financing for the project. NSC’s potential customers will also be required to obtain various governmental permits and approvals in order to purchase water from NSC.

In February 2012, the Company entered into an agreement (the “Option Agreement”) that provided it with an option, exercisable through February 7, 2014, to purchase the shares of one of the other shareholders of NSC, along with an immediate power of attorney to vote those shares, for $1 million. Such shares constituted 25% of the ownership of NSC as of February 2012. In May 2013, NSC repaid a $5.7 million loan payable to Cooperatief by issuing additional shares of its stock. As a result of this share issuance to Cooperatief, the Company acquired 99.9% of the ownership of NSC. The Option Agreement contained an anti-dilution provision that required the Company to issue new shares in NSC of an amount sufficient to maintain the other shareholder’s 25% ownership interest in NSC if (i) any new shares of NSC were issued subsequent to the execution of the Option Agreement and (ii) the Company did not exercise its share purchase option by February 7, 2014. The Company exercised its option and purchased the Option Agreement shares in February 2014.

NSC entered into a purchase contract for 8.1 hectares of land on which the proposed plant would be constructed and in 2012 obtained an extension of this purchase contract through May 15, 2014 in exchange for prepayments of (i) $500,000 paid at signing of the extension and (ii) a further $500,000 paid in May 2013. NSC paid $7.4 million in May 2014 to complete this land purchase. In 2013, NSC purchased an additional 12 hectares of land for the project for $12 million, of which $2 million was paid. NSC paid the remaining $10 million due for this land purchase on May 15, 2014. The Company obtained new financing in May 2014 to assist in the funding of NSC’s land purchases in the form of a $10.0 million loan which is payable on demand by the lender. The loan terms require principal and interest payments to be made quarterly under a five year amortization schedule and payment of the remaining principal balance after two years, if the loan is not called before that time. This loan bears interest at LIBOR plus 1.5% and is secured by substantially all of the Company’s assets in the Cayman Islands.

Under the EPC MOU, the contractor installed and operated an equipment piloting plant and collected water data from the proposed feed water source site in Rosarito Beach, Baja California, Mexico. The EPC MOU required that NSC negotiate exclusively with the contractor for the construction of the 100 million gallon per day seawater reverse osmosis desalination plant and further required payment by NSC to the contractor of up to $500,000 as compensation for the operation and maintenance of the equipment piloting plant should NSC not award the engineering, procurement and construction contract for the project to the contractor. This first phase of the pilot plant testing program was completed in October 2013. NSC decided not to extend the EPC MOU beyond its February 2014 expiration date and paid the contractor $350,000 during the three months ended March 31, 2014 as compensation for the operation and maintenance of the pilot plant. NSC has implemented additional sampling protocols to comply with regulatory requirements in the U.S. and Mexico, and is also coordinating with regulators to assess the need, if any, for further process piloting.

In November 2012, NSC signed a letter of intent with Otay Water District in Southern California to deliver no less than 20 million and up to 40 million gallons of water per day from the plant to the Otay Water District at the border between Mexico and the U.S.

NSC has entered into a 20-year lease, effective November 2012, with the Comisión Federal de Electricidad for approximately 5,000 square meters of land on which it plans to construct the water intake and discharge works for the plant. The amounts due on this lease are payable in Mexican pesos at an amount that is currently equivalent to approximately $20,000 per month. This lease is cancellable without penalty should NSC ultimately not proceed with the project.

Included in the consolidated results of operations are general and administrative expenses from NSC that consist of organizational, legal, accounting, engineering, consulting and other costs relating to NSC’s project development activities. Such expenses amounted to $693,586 and $1,231,419 for the three months ended September 30, 2014 and 2013, respectively, and $3,244,002 and $2,223,291 for the nine months ended September 30, 2014 and 2013, respectively. The assets and liabilities of NSC included in the consolidated balance sheets amounted to approximately $21.8 million and $163,000, respectively, as of September 30, 2014, and approximately $13.7 million and $10.3 million, respectively, as of December 31, 2013.