CONSOLIDATED WATER CO LTD
Form 10-Q
August 09, 2013

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 June 30, 2013

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	**98-0619652**
(State or other jurisdiction of incorporation or organization)	(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 August 5, 2013, 14,642,472 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.

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

Consolidated Water Co. Ltd.’s Netherlands subsidiary conducts business in US$ and euros, its Indonesian subsidiary conducts business in US$ dollars and Indonesian rupiahs, and its Mexico affiliate 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

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$34,855,601	$33,892,655
Marketable securities	8,575,899	8,570,338
Accounts receivable, net	14,450,906	12,516,466
Inventory	1,590,684	1,757,601
Prepaid expenses and other current assets	3,241,097	2,709,185
Current portion of loans receivable	1,782,992	1,812,532
Total current assets	64,497,179	61,258,777
Property, plant and equipment, net	57,581,143	58,993,406
Construction in progress	3,603,878	2,612,800
Inventory, non-current	3,963,258	3,970,241
Loans receivable	8,159,288	9,028,279
Investment in OC-BVI	6,854,775	6,925,346
Intangible assets, net	1,275,556	1,455,015
Goodwill	3,499,037	3,499,037
Investment in land	12,025,566	-
Other assets	2,829,583	2,706,185
Total assets	$164,289,263	$150,449,086
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other current liabilities	$5,291,529	$5,867,456
Dividends payable	1,163,728	1,158,967
Current portion of long term debt	1,708,946	1,647,493
Land purchase obligation	10,050,000	-
Total current liabilities	18,214,203	8,673,916
Long term debt	4,335,050	5,205,167
Other liabilities	350,551	435,413
Total liabilities	22,899,804	14,314,496

Equity		
Consolidated Water Co. Ltd. stockholders' equity		
Redeemable preferred stock, $0.60 par value. Authorized 200,000 shares; issued and outstanding 39,941 and 30,265 shares, respectively	23,965	18,159
Class A common stock, $0.60 par value. Authorized 24,655,000 shares; issued and outstanding 14,642,472 and 14,593,011 shares, respectively	8,785,483	8,755,807
Class B common stock, $0.60 par value. Authorized 145,000 shares; none issued or outstanding	-	-
Additional paid-in capital	83,007,617	82,467,421
Retained earnings	47,361,298	42,965,179
Total Consolidated Water Co. Ltd. stockholders' equity	139,178,363	134,206,566
Non-controlling interests	2,211,096	1,928,024
Total equity	141,389,459	136,134,590
Total liabilities and equity	$ 164,289,263	$ 150,449,086

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 INCOME

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Retail water revenues	$6,179,597	$5,869,254	$12,574,609	$12,435,382
Bulk water revenues	10,162,572	10,212,669	20,019,262	20,281,886
Services revenues	227,211	148,856	530,706	242,238
Total revenues	16,569,380	16,230,779	33,124,577	32,959,506
Cost of retail revenues	2,870,175	2,885,657	5,704,927	5,928,405
Cost of bulk revenues	7,047,346	7,868,487	14,234,759	15,523,939
Cost of services revenues	254,338	71,225	566,863	153,903
Total cost of revenues	10,171,859	10,825,369	20,506,549	21,606,247
Gross profit	6,397,521	5,405,410	12,618,028	11,353,259
General and administrative expenses	3,594,762	3,442,283	7,163,698	6,956,968
Income from operations	2,802,759	1,963,127	5,454,330	4,396,291
Other income (expense):				
Interest income	169,796	235,460	349,884	450,890
Interest expense	(124,845)	(206,815)	(257,270)	(590,450)
Profit sharing income from OC-BVI	27,652	-	315,111	-
Equity in earnings of OC-BVI	76,332	44,823	864,193	101,761
Other income	63,544	44,032	152,677	155,167
Other income, net	212,479	117,500	1,424,595	117,368
Net income	3,015,238	2,080,627	6,878,925	4,513,659
Income attributable to non-controlling interests	161,388	123,135	283,072	213,501
Net income attributable to Consolidated Water Co. Ltd. stockholders	$2,853,850	$1,957,492	$6,595,853	$4,300,158
Basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	$0.19	$0.13	$0.45	$0.29
Diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	$0.19	$0.13	$0.45	$0.29
Dividends declared per common share	$0.075	$0.075	$0.15	$0.15
Weighted average number of common shares used in the determination of:				
Basic earnings per share	14,636,916	14,579,496	14,617,613	14,574,689
Diluted earnings per share	14,684,515	14,603,852	14,659,593	14,598,054

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

CONSOLIDATED WATER CO. LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended June 30,	
	2013	2012
Net cash provided by (used in) operating activities	5,448,496	5,097,981
Cash flows from investing activities		
Additions to property, plant and equipment and construction in progress	(1,918,541)	(1,629,001)
Proceeds from sale of equipment	5,760	-
Distribution of earnings from OC-BVI	1,249,875	507,525
Collections on loans receivable	898,531	820,430
Payment for investment in land	(1,975,566)	-
Payment for NSC option agreement	-	(300,000)
Release of (restriction) on cash balances for non-revolving credit facility	-	7,500,000
Net cash provided by (used in) investing activities	(1,739,941)	6,898,954
Cash flows from financing activities		
Dividends paid	(2,194,972)	(2,187,897)
Issuance (repurchase) of redeemable preferred stock, net	(4,159)	(1,729)
Proceeds received from exercise of stock options	302,807	-
Principal repayments of long term debt	(849,285)	(9,300,578)
(Principal repayment) borrowing under non-revolving credit facility	-	(7,500,000)
Net cash provided by (used in) financing activities	(2,745,609)	(18,990,204)
Net increase (decrease) in cash and cash equivalents	962,946	(6,993,269)
Cash and cash equivalents at beginning of period	33,892,655	37,624,179
Cash and cash equivalents at end of period	$34,855,601	$30,630,910
Interest paid in cash	$202,734	$442,594
Non-cash investing and financing activities		
Issuance of 10,180 and 10,033, respectively, of redeemable preferred stock for services rendered	$110,249	$77,856
Issuance of 11,131 and 10,800, respectively, of common stock for services rendered	$82,369	$92,664
Dividends declared but not paid	$1,101,181	$1,095,883
Obligation incurred for investment in land	$10,050,000	$-
Transfers from inventory to property, plant and equipment	$181,875	$139,507

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

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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 and the Bahamas. The Company sells water to a variety of customers, including public utilities, commercial and tourist properties, residential properties and government utilities. The base prices of water supplied by the Company, and adjustments thereto, are determined by the terms of the Company’s retail license and its bulk water 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, design and construction services for water plants, and manages and operates water plants owned by others.

2. 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 (Asia) Pte. Ltd. (“CW-Asia”), 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”), N.S.C. Agua, S.A. de C.V. (“NSC”) and PT Consolidated Water Bali (“CW-Bali”). The Company’s investment in its affiliate, Ocean Conversion (BVI) Ltd. (“OC-BVI”), is accounted for using the equity method of accounting. 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, 2013.

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 pursuant to SEC rules and regulations, although the Company believes that the disclosures made 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, 2012.

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 June 30, 2013 and December 31, 2012, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other liabilities and dividends payable approximate their fair values due to the short term maturities of these instruments. Management considers that the carrying amounts for loans receivable and long term debt as of June 30, 2013 and December 31, 2012 approximate their fair value.

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 June 30, 2013 and December 31, 2012:

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Recurring				
Marketable securities	$8,575,899	$ -	$-	$8,575,899
Nonrecurring				
Investment in affiliate	$-	$ -	$6,854,775	$6,854,775

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Recurring				
Marketable securities	$8,570,338	$ -	$-	$8,570,338
Nonrecurring				
Investment in affiliate	$-	$ -	$6,925,346	$6,925,346

A reconciliation of the beginning and ending balances for Level 3 investments for the six months ended June 30, 2013:

Balance as of December 31, 2012	$6,925,346
Profit sharing and equity from earnings of OC-BVI	1,179,304
Distributions from OC-BVI	(1,249,875)
Balance as of June 30, 2013	$6,854,775

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 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 to third parties and provides desalination plant management and operating services to affiliated companies. Consistent with prior periods, we record all non-direct general and administrative expenses in our retail segment and do not allocate any of these non-direct expenses to our other two segments.

The Company evaluates each segment's performance based upon its income 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 June 30, 2013			
	Retail	Bulk	Services	Total
Revenues	$6,179,597	$10,162,572	$227,211	$16,569,380
Cost of revenues	2,870,175	7,047,346	254,338	10,171,859
Gross profit	3,309,422	3,115,226	(27,127)	6,397,521
General and administrative expenses	2,679,249	354,961	560,552	3,594,762
Income (loss) from operations	630,173	2,760,265	(587,679)	2,802,759
Other income, net				212,479
Consolidated net income				3,015,238
Income attributable to non-controlling interests				161,388
Net income attributable to Consolidated Water Co. Ltd. stockholders				$2,853,850

Depreciation and amortization expenses for the three months ended June 30, 2013 for the retail, bulk and services segments were $508,259, $767,609 and $73,181, respectively.

	Six Months Ended June 30, 2013			
	Retail	Bulk	Services	Total
Revenues	$12,574,609	$20,019,262	$530,706	$33,124,577
Cost of revenues	5,704,927	14,234,759	566,863	20,506,549

Gross profit	6,869,682	5,784,503	(36,157)	12,618,028
General and administrative expenses	5,310,759	763,208	1,089,731	7,163,698
Income (loss) from operations	1,558,923	5,021,295	(1,125,888)	5,454,330
Other income, net				1,424,595
Consolidated net income				6,878,925
Income attributable to non-controlling interests				283,072
Net income attributable to Consolidated Water Co. Ltd. stockholders				$6,595,853

Depreciation and amortization expenses for the six months ended June 30, 2013 for the retail, bulk and services segments were $1,018,899, $1,532,125 and $146,363, respectively.

	As of June 30, 2013			
	Retail	Bulk	Services	Total
Property plant and equipment, net	$23,501,493	$33,484,674	$594,976	$57,581,143
Construction in progress	$3,531,949	$19,678	$52,251	$3,603,878
Goodwill	$1,170,511	$2,328,526	$-	$3,499,037
Investment in land	$-	$-	$12,025,566	$12,025,566
Total assets	$61,739,717	$87,631,435	$14,918,111	$164,289,263

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	Three Months Ended June 30, 2012			
	Retail	Bulk	Services	Total
Revenues	$5,869,254	$10,212,669	$148,856	$16,230,779
Cost of revenues	2,885,657	7,868,487	71,225	10,825,369
Gross profit	2,983,597	2,344,182	77,631	5,405,410
General and administrative expenses	2,686,295	309,364	446,624	3,442,283
Income (loss) from operations	297,302	2,034,818	(368,993)	1,963,127
Other income, net				117,500
Consolidated net income				2,080,627
Income attributable to non-controlling interests				123,135
Net income attributable to Consolidated Water Co. Ltd. stockholders				$1,957,492

Depreciation and amortization expenses for the three months ended June 30, 2012 for the retail, bulk and services segments were $521,786, $1,285,167 and $73,279, respectively.

	Six Months Ended June 30, 2012			
	Retail	Bulk	Services	Total
Revenues	$12,435,382	$20,281,886	$242,238	$32,959,506
Cost of revenues	5,928,405	15,523,939	153,903	21,606,247
Gross profit	6,506,977	4,757,947	88,335	11,353,259
General and administrative expenses	5,482,462	636,764	837,742	6,956,968
Income (loss) from operations	1,024,515	4,121,183	(749,407)	4,396,291
Other income, net				117,368
Consolidated net income				4,513,659
Income attributable to non-controlling interests				213,501
Net income attributable to Consolidated Water Co. Ltd. stockholders				$4,300,158

Depreciation and amortization expenses for the six months ended June 30, 2012 for the retail, bulk and services segments were $1,052,225, $2,554,092 and $134,058, respectively.

	As of December 31, 2012			
	Retail	Bulk	Services	Total
Property, plant and equipment, net	$24,021,301	$34,308,805	$663,300	$58,993,406
Construction in progress	$2,342,248	$270,552	$-	$2,612,800
Goodwill	$1,170,511	$2,328,526	$-	$3,499,037
Total assets	$63,649,696	$83,177,550	$3,621,840	$150,449,086

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 six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income attributable to Consolidated Water Co. Ltd. common stockholders	$2,853,850	$1,957,492	$6,595,853	$4,300,158
Less: preferred stock dividends	(2,996)	(2,421)	(5,991)	(4,842)
Net income available to common shares in the determination of basic earnings per common share	$2,850,854	$1,955,071	$6,589,862	$4,295,316
Weighted average number of common shares in the determination of basic earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	14,636,916	14,579,496	14,617,613	14,574,689
Plus:				
Weighted average number of preferred shares outstanding during the period	31,998	24,082	30,944	23,187
Potential dilutive effect of unexercised options	15,601	274	11,036	178
Weighted average number of shares used for determining diluted earnings per common share attributable to Consolidated Water Co. Ltd. common stockholders	14,684,515	14,603,852	14,659,593	14,598,054

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 $6,854,775 and $6,925,346 as of June 30, 2013 and December 31, 2012, 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 dispute*"), the BVI government assumed the operating responsibilities for the Baughers Bay plant in March 2010. During 2007, OC-BVI completed, for a total cost of approximately $8 million, 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 definitive seven-year contract for the Bar Bay plant (the "Bar Bay Agreement") 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 the invoices for the water provided by the Bar Bay plant on a timely basis.

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

	June 30, 2013	December 31, 2012
Current assets	$3,007,518	$3,033,939
Non-current assets	6,318,531	6,730,121
Total assets	$9,326,049	$9,764,060

	June 30, 2013	December 31, 2012
Current liabilities	$637,051	$937,965

Non-current liabilities	1,705,050	1,743,077
Total liabilities	$2,342,101	$2,681,042

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	$1,182,786	$1,118,504	$2,413,574	$2,153,413
Gross Profit	$477,657	$377,549	$1,005,450	$661,290
Income from operations	$235,095	$50,635	$507,700	$136,375
Other income (expense), net [(1)]	$(50,476)	$65,745	$1,496,980	$117,918
Net income attributable to controlling interests	$175,355	$102,970	$1,985,281	$233,772

(1) Includes income of $2.0 million and $nil related to the Court award – Baughers Bay dispute, for the six months ended June 30, 2013 and 2012, respectively.

The Company recognized $76,332 and $44,823 in earnings from its equity investment in OC-BVI for the three months ended June 30, 2013 and 2012, respectively. The Company recognized $864,193 and $101,761 in earnings from its equity investment in OC-BVI for the six months ended June 30, 2013 and 2012, respectively. The Company recognized $27,652 in profit sharing income from its profit sharing agreement with OC-BVI for the three months ended June 30, 2013 and no profit sharing income for the three months ended June 30, 2012. The Company recognized $315,111 in profit sharing income from its profit sharing agreement with OC-BVI for the six months ended June 30, 2013 and no profit sharing income for the six months ended June 30, 2012.

For the three months ended June 30, 2013 and 2012, the Company recognized approximately $126,791 and $148,856, respectively, in revenues from its management services agreement with OC-BVI which is included in the services segment revenues. For the six months ended June 30, 2013 and 2012, the Company recognized approximately $264,141 and $242,238, respectively, in revenues from its management services agreement with OC-BVI which is included in the services segment revenues. 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 $356,000 and $428,000 as of June 30, 2013 and December 31, 2012, respectively. For the three months ended June 30, 2013, the Company generated revenues and gross profit of $100,420 and $65,448 respectively, from sales of consumables stock to OC-BVI. For the six months ended June 30, 2013, the Company generated revenues and gross profit of $221,155 and $97,923 respectively, from sales of consumables stock to OC-BVI. The Company did not generate revenues or gross profit from the sales of consumables stock to OC-BVI during the six months ended June 30, 2012.

Baughers Bay dispute

In 2006, the Government of the British Virgin Islands (the “BVI government”) asserted a purported right of ownership of the Baughers Bay plant operated by OC-BVI pursuant to the terms of the 1990 Agreement.

Under the terms of the 1990 Agreement, upon the expiration of the initial seven-year term in May 1999, the 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 for 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 2007, the BVI government ceased honoring the terms of the 1990 Agreement by significantly reducing the amount and frequency of its payments to OC-BVI, and also filed a lawsuit with the Eastern Caribbean Supreme Court (the “Court”) seeking ownership of the Baughers Bay plant. OC-BVI counterclaimed to 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 issued its rulings with respect to this litigation in September 2009. The Court determined 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 a payment of $2.0 million to OC-BVI under the Court order during the fourth quarter of 2009, a second payment of $2.0 million under the Court order during 2010 and a third payment under the Court order of $1.0 million in 2011.

OC-BVI filed an appeal with the Eastern Caribbean Court of Appeals (the "Appellate Court") in October 2009 asking the Appellate Court to review the Court's ruling as it related to OC-BVI's claim for compensation for expenditures made to expand the production capacity of the Baughers Bay plant. In October 2009, the BVI government also filed an appeal with the Appellate Court, requesting the Appellate Court to review the Court's ruling and reduce the $10.4 million awarded by the Court for water produced by OC-BVI for the period subsequent to December 20, 2007 to an amount equal to the actual production cost of the water.

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

On June 30, 2012, the Appellate Court issued its final amended and corrected 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 by which the value of the Baughers Bay plant at the date OC-BVI transferred possession of the plant to the BVI government exceeded $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 accordance with the cash basis of accounting.

The Appellate Court has yet to determine what amount, if any, must be paid by the BVI government to OC-BVI for the value of the Baughers Bay plant at the date OC-BVI transferred possession of the plant to the BVI government.

7. NSC Agua

In May 2010, the Company acquired, through its wholly-owned Netherlands subsidiary, Consolidated Water Cooperatief, U.A., a 50% interest in N.S.C. Agua, S.A. de C.V., ("NSC") a Mexican company. The Company has since purchased, through the conversion of its loan to NSC, sufficient shares to raise its ownership interest in NSC to 99.9%. NSC has been 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. To complete this project, the Company has engaged two engineering groups with extensive regional and/or technical experience and has partnered with Doosan Heavy Industries and Construction ("DHIC"), a global leader in the engineering, procurement and construction of large seawater desalination plants. Once completed, the Company expects to operate the plant and pipeline and retain a minority position in the project. NSC is in the development stage, and is presently involved in seeking contracts for the electric power and feed water sources for the plant's proposed operations, and conducting (under a Memorandum of Understanding with DHIC) an equipment piloting plant and water quality data collection program at the proposed feed water source. In addition to completing these activities, NSC will be required to accomplish various other steps before it can commence construction of the plant and pipeline including, but not limited to, completing the purchases of land required for the project, obtaining approvals and permits from various governmental agencies in Mexico and the United States, 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 acquired an option, exercisable through February 7, 2014, to purchase the shares of one of the other shareholders of NSC for $1.0 million, along with an immediate power of attorney to vote those shares. If the Company does not exercise this option and purchase these shares, the other shareholder will receive sufficient additional shares in NSC to increase its ownership interest in NSC to 25%.

In May 2013, NSC purchased 12 hectares of land, which constitute most of the land required for the project, for $12.0 million, of which $2.0 million has been paid. The remaining $10.0 million balance for this purchase is due on May 15, 2014. In 2011, NSC entered into a purchase contract for the remaining 8.1 hectares of land on which the proposed plant would be constructed. In July 2012, NSC 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 will be required to pay a balance of $6.98 million on May 15, 2014 to complete the purchase of this land.

In August 2012, NSC and DHIC extended their Memorandum of Understanding for 18 months from August 19, 2012, pursuant to which DHIC installed and is operating an equipment piloting plant and collecting water quality data from the proposed feed water source site in Rosarito Beach, Baja California, Mexico. This amended Memorandum of Understanding requires that NSC negotiate exclusively with DHIC for the construction of the 100 million gallon per day seawater reverse osmosis desalination plant and further requires payment by NSC to DHIC 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 DHIC.

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 United States.

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 should NSC ultimately not proceed with the project.

In May 2013, NSC repaid a loan payable to the Company of approximately $5.7 million by issuing additional shares of its stock. As a result of this share issuance, the Company now owns 99.9% of NSC.

The Company includes the accounts of NSC in its consolidated financial statements. Included in the Company's consolidated results of operations are general and administrative expenses from NSC, consisting of organizational, legal, accounting, engineering, consulting and other costs relating to NSC's project development activities. Such expenses amounted to $512,565 and $398,347 for the three months ended June 30, 2013 and 2012, respectively, and $991,872 and $739,674 for the six months ended June 30, 2013 and 2012, respectively, and totaled approximately $6.4 million for the three year period ended December 31, 2012. The assets and liabilities of NSC included in the Company's consolidated balance sheet amounted to approximately $13,602,000 and $10,207,000, respectively, as of June 30, 2013 and approximately $1,452,000 and $116,000, respectively, as of December 31, 2012.

The Company has determined that completing NSC's development activities will require significantly more funding than has been expended to date and the Company may incur significant development expenses in the future for this project. The Company estimates that it will take at least through the second quarter of 2014 for NSC to complete all of the development activities (which include completing the site piloting plant activities, completing the purchase of the land for the plant, securing feed water and power supplies, completing the engineering and feasibility studies, negotiating customer contracts, obtaining required regulatory permits and arranging the project financing) necessary to commence construction of the plant. However, NSC may ultimately be unable to complete all of the activities necessary to begin construction of the project.

8. Retail segment contingency

In the Cayman Islands, the Company provides water to retail customers under a license issued to Cayman Water in July 1990 by the Cayman Islands government that grants the Company the exclusive right to provide water to retail customers within its licensed service area. The Company's service area is comprised of an area on Grand Cayman that includes the Seven Mile Beach and West Bay areas, two of the three most populated areas in the Cayman Islands. For the three months ended June 30, 2013 and 2012, the Company generated approximately 37% and 36%, respectively, of its consolidated revenues and 52% and 55%, respectively, of its consolidated gross profits from the retail water operations conducted pursuant to its exclusive license. For the six months ended June 30, 2013 and 2012, the Company generated approximately 38% of its consolidated revenues and 54% and 57%, respectively, of its consolidated gross profits from the retail water operations conducted pursuant to its exclusive license. If Cayman Water is not in default of any terms of the license, the Company has a right of first refusal to renew the license on terms that are no less favorable than those that the government offers to any third party.

This license was set to expire on July 10, 2010; however, the Company and the Cayman Islands government have agreed in correspondence to extend the license several times in order to provide sufficient time to negotiate the terms of a new license agreement. The most recent extension of the Company's license expires September 30, 2013.

In February 2011, the Water Production and Supply Law, 2011 (which replaces the Water (Production and Supply) Law (1996 Revision) under which the Company is licensed) and the Water Authority (Amendment) Law, 2011 (collectively, the "New Laws") were published and are now in full force and effect. Under the New Laws, the Water Authority-Cayman ("WAC") issues any new license, which could include a rate of return on invested capital model described below.

The Company has been advised in correspondence from the Cayman Islands government and the WAC that: (i) the WAC is now the principal negotiator, and not the Cayman Islands government, in these license negotiations, and (ii) the WAC has determined that a rate of return on invested capital model ("RCAM") is in the best interest of the public and the Company's customers. RCAM is the rate model currently utilized in the electricity transmission and distribution license granted by the Cayman Islands government to the Caribbean Utilities Company, Ltd.

In July 2012, in an effort to resolve several issues relating to the retail license renewal negotiations, the Company filed an Application for Leave to Apply for Judicial Review (the "Application") with the Grand Court of the Cayman Islands (the "Grand Court"), stating that: (i) certain provisions of the Water Authority Law, 2011 and the Water (Production and Supply) Law, 2011, appear to be incompatible, (ii) the WAC's roles as the principal license negotiator, statutory regulator and the Company's competitor put the WAC in a position of hopeless conflict, and (iii) the WAC's decision to replace the rate structure under the Company's current exclusive license with RCAM was predetermined and unreasonable.

Throughout the course of the retail license renewal negotiations, the Company has objected to the use of RCAM on the basis that it believes such a model would not promote the efficient operation of its water utility and could ultimately increase water rates to its customers.

In October 2012, the Company was notified that the Grand Court has agreed to consider the issues raised by the Company in the Application. As a result, the Company, the Cayman Islands government and the WAC will have the opportunity to present their positions to the Grand Court in a trial proceeding.

If the Company does not ultimately enter into a new license agreement and no other party is awarded a license, the Company expects to be permitted to continue to supply water to its service area.

It is possible that the Cayman Islands government could offer a third party a license to service some or all of the Company's present service area. In such event, the Company may assume the license offered to the third party by exercising its right of first refusal. However, the terms of any new license agreement may not be as favorable to the Company as the terms under which it is presently operating and could materially reduce the operating income and cash flows that the Company has historically generated from its retail license and could require the Company to record an impairment charge to reduce the $3,499,037 carrying value of its goodwill. Such impairment charge could have a material adverse impact on the Company's results of operations.

The Company is presently unable to determine what impact the resolution of this matter will have on its financial condition, results of operations or cash flows.

9. Impact of recent accounting pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-02, *Intangibles - Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment* , which aims to simplify the impairment test for indefinite-lived intangible assets by permitting an entity the option to first assess qualitative factors to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired as a basis for determining whether the quantitative impairment test included in Accounting Standards Codification Subtopic 350-30, *Intangibles—Goodwill and Other—General Intangibles Other than Goodwill* must be performed. The amendment is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company currently has no indefinite-lived intangible assets other than goodwill reported on its consolidated balance sheet. The adoption of ASU 2012-02 did not have an impact on the Company's consolidated financial statements.

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In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*. The amendments in this update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 did not have an impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Other Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires an entity to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. The adoption of ASU 2013-02 on January 1, 2013 did not have an impact on the Company's consolidated financial statements.

10. Subsequent events

The Company's management evaluated subsequent events through the time of the filing of this report on Form 10-Q. The Company's management is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on its consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding our future revenues, future plans, objectives, expectations and events, assumptions and estimates. Forward-looking statements can be identified by use of the words or phrases "will," "will likely result," "are expected to," "will continue," "estimate," "project," "potential," "belie "anticipate," "expect," "intend," or similar expressions and variations of such words. Statements that are not historical facts are based on our current expectations, beliefs, assumptions, estimates, forecasts and projections for our business and the industry and markets related to our business.

The forward-looking statements contained in this report are not guarantees of future performance and involve certain risks, uncertainties and assumptions which are difficult to predict. Actual outcomes and results may differ materially from what is expressed in such forward-looking statements. Important factors which may affect these actual outcomes and results include, without limitation:

- tourism and weather conditions in the areas we serve;
- the economies of the U.S., the areas, and the governments we serve;
- our relationships with the governments we serve;
- regulatory matters, including resolution of the negotiations for the renewal of our retail license on Grand Cayman;
- our ability to successful enter new markets, including Mexico and Asia;

and other factors, including those "Risk Factors" set forth under Part II, Item 1A in this Quarterly Report and in our 2012 Annual Report on Form 10-K.

Each of the forward-looking statements in this Quarterly Report speaks as of its date. We expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained in this Quarterly Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based, except as may be required by law.

Unless otherwise indicated, references to "we," "our," "ours" and "us" refer to Consolidated Water Co. Ltd., its subsidiaries, and its consolidated affiliates.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ significantly from such estimates and assumptions.

Certain of our accounting estimates or assumptions constitute "critical accounting estimates" for us due to the fact that:

- the nature of these estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on financial condition and results of operations is material.

Our critical accounting estimates relate to (i) the valuation of our equity investment in our affiliate, OC-BVI; (ii) goodwill and intangible assets; and (iii) plant construction revenues and costs.

Valuation of Investment in OC-BVI. We account for our 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. OC-BVI's dispute and resulting litigation with the BVI government relating to the Baughers Bay plant have resulted in a fair value of our investment in OC-BVI that was at one time less than our carrying value for this investment, as discussed in the paragraphs that follow.

As a quoted market price for OC-BVI's stock is not available, to test for possible impairment of our investment in OC-BVI we estimate its fair value through use of the discounted cash flow method, which relies upon seven-year discrete projections of OC-BVI's operating results, working capital and capital expenditures. The use of this method requires us to estimate the cash flows from OC-BVI's Bar Bay plant. For the year ended December 31, 2011 and prior years, the use of this method also required us to estimate the cash flows OC-BVI expected to obtain from the resolution of its dispute and resulting litigation with the BVI government over the ownership and operation of the Baughers Bay plant by (i) identifying various possible outcomes of the Baughers Bay litigation and estimating the cash flows associated with each possible outcome; and (ii) assigning a probability to each Baughers Bay outcome and associated expected cash flows based upon discussions held by OC-BVI's management with the BVI government and OC-BVI's legal counsel. The resulting probability weighted sum represented the expected cash flows, and our best estimate of future cash flows, to be derived by OC-BVI from the Baughers Bay litigation. This sum was then added to OC-BVI's estimated cash flows from its Bar Bay plant and the total was present-valued to estimate OC-BVI's fair value.

The identification of the possible outcomes for the Baughers Bay dispute, the projections of cash flows for each outcome, and the assignment of relative probabilities to each outcome all represented significant estimates made by us. While we used our best judgment to identify the possible outcomes and expected cash flows for these outcomes and assign relative probabilities to each outcome, these estimates were by their nature highly subjective and were also subject to material change by our management over time based upon additional information from OC-BVI's management and legal counsel, and a change in the status of OC-BVI's litigation with the BVI government. After considering the September and October 2009 rulings of the Eastern Caribbean Supreme Court (the "Court") relating to the Baughers Bay litigation and an announcement by the BVI government in February 2010 that it had signed a contract with another company to construct and operate a plant to provide potable water to the greater Tortola area served by the Baughers Bay plant, we determined that the carrying value of our investment in OC-BVI exceeded the estimated fair value for our investment in OC-BVI and therefore recognized impairment losses aggregating approximately $4.7 million for the year ended December 31, 2009.

The remaining carrying value of our investment in OC-BVI of $6.6 million as of December 31, 2011 assumed that the BVI government would ultimately pay OC-BVI the full amount awarded by the Court in its 2009 rulings and fulfill its obligations to purchase water under the Bar Bay plant agreement. In June 2012, the Eastern Caribbean Court of Appeals 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 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.

The remaining carrying value of our investment in OC-BVI of $6.9 million as of June 30, 2013 assumes that the BVI government will honor its obligations under the Bar Bay plant water supply agreement and that the Bar Bay plant will continue to supply water beyond the initial term of this agreement. If the BVI government fails to honor the terms of this agreement or elects not to renew it, our future actual cash flows from OC-BVI could be materially less than our current expectations for its cash flows and we could be required to record an additional loss to reduce the carrying value of our investment in OC-BVI. Such impairment loss would reduce our earnings and could have a material adverse impact on our results of operations and financial condition.

Goodwill and intangible assets. Goodwill represents the excess cost over the fair value of the assets of an acquired business. Goodwill and intangible assets with an indefinite useful life that are acquired in a business combination are not amortized, but are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed periodically for impairment. We evaluate the possible impairment of goodwill annually as part of our reporting process for the fourth quarter of each fiscal year. Management identifies our reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. We determine the fair value of each reporting unit and compare the fair value to the carrying amount of the reporting unit. If the carrying amount of the reporting unit exceeds the fair value of the reporting unit, we are required to perform the second step of the impairment test, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. If the implied fair value is less than its carrying amount, an impairment loss is recorded to reduce the carrying amount of the unit to such implied fair value.

For the years in the three-year period ended December 31, 2012, we estimated the fair value of our reporting units by applying the discounted cash flow method, the subject company stock price method, the guideline public company method, the mergers and acquisitions method and, on an exception basis and where necessary and appropriate, the net asset value method.

The discounted cash flow method relied upon seven-year discrete projections of operating results, working capital and capital expenditures, along with a terminal value subsequent to the discrete period. These seven-year projections were based upon historical and anticipated future results, general economic and market conditions, and considered the impact of planned business and operational strategies. The discount rates for the calculations represented the estimated cost of capital for market participants at the time of each analysis. In preparing these seven year projections for 2012 for our retail unit we (i) identified various possible outcomes of our on-going negotiations with the Cayman Islands government for the renewal of our retail license; (ii) estimated the cash flows associated with each possible outcome; and (iii) assigned a probability to each outcome and associated estimated cash flows. The weighted average estimated cash flows were then summed to determine the overall fair value of the retail unit under this method. The possible outcomes used for the discounted cash flow method for the retail unit included the implementation of a rate of return on invested capital model, the methodology proposed by Cayman Islands government representatives for the new retail license.

We also estimated the fair value of each of our reporting units for each of the years in the three-year period ended December 31, 2012 through reference to the quoted market prices for our Company and guideline companies and the market multiples implied by guideline merger and acquisition transactions. For the year ended December 31, 2012 we also relied upon net asset values to estimate the fair value of our services unit.

We weighted the fair values estimated for each of our reporting units under each method and summed such weighted fair values to estimate the overall fair value for each reporting unit. In recognition of the fact that our common stock has traded at prices less than its book value per share during the past two years we changed the relative weightings for 2012 from those used for 2011 to increase the weightings applied to those methods that resulted in more conservative estimates of fair value. The respective weightings we applied to each method for the years ended December 31, 2012 and 2011 are as follows:

	2012			2011		
Method	Retail	Bulk	Services	Retail	Bulk	Services
Discounted cash flow	20 %	30 %		20%	10 %	20 %
Subject company stock price	60 %	50 %	10 %	40%	10 %	80 %
Guideline public company	10 %	10 %		20%	40 %	
Mergers and acquisitions	10 %	10 %		20%	40 %	
Net asset value			90 %			
	100%					