UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from ______________ to ______________

Commission File Number: 001-37756

Global Water Resources, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**90-0632193**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
21410 N. 19th Avenue #220, Phoenix, AZ	**85027**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (480) 360-7775

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.01 per share	GWRS	The NASDAQ Stock Market, LLC (NASDAQ Global Market)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 4, 2019, the registrant had 21,536,834 shares of common stock, $0.01 par value per share, outstanding.

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL WATER RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(Unaudited)

	September 30, 2019	December 31, 2018
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	321,027	312,148
Less accumulated depreciation	(90,760)	(85,093)
Net property, plant and equipment	230,267	227,055
CURRENT ASSETS:		
Cash and cash equivalents	11,091	12,756
Accounts receivable — net	1,780	1,488
Due from affiliates	519	406
Unbilled revenue	2,323	1,998
Prepaid expenses and other current assets	589	686
Total current assets	16,302	17,334
OTHER ASSETS:		
Goodwill	4,398	2,639
Intangible assets — net	12,554	12,972
Regulatory asset	1,735	1,793
Deposits	128	128
Restricted cash	1,046	441
Equity method investment	—	79
Other noncurrent assets	20	20
Total other assets	19,881	18,072
TOTAL ASSETS	266,450	262,461
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	726	604
Accrued expenses	8,689	7,465
Customer and meter deposits	1,467	1,460
Long-term debt and capital leases — current portion	87	47
Total current liabilities	10,969	9,576
NONCURRENT LIABILITIES:		
Long-term debt and capital leases	114,593	114,507
Deferred revenue - ICFA	17,371	17,358
Regulatory liability	8,743	8,851
Advances in aid of construction	65,664	67,684
Contributions in aid of construction — net	14,449	10,670
Deferred income tax liabilities — net	5,010	4,350
Acquisition liability	1,773	934
Other noncurrent liabilities	1,516	660
Total noncurrent liabilities	229,119	225,014
Total liabilities	240,088	234,590
Commitments and contingencies (Refer to Note 16)		
SHAREHOLDERS' EQUITY:		
Common stock, $0.01 par value, 60,000,000 shares authorized; 21,634,470 and 21,530,470 shares issued as of September 30, 2019 and December 31, 2018, respectively.	216	215
Treasury stock, 97,636 and 59,174 shares at September 30, 2019 and December 31, 2018, respectively.	(1)	(1)
Paid in capital	26,147	27,657
Retained earnings	—	—
Total shareholders' equity	26,362	27,871
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	266,450	262,461

See accompanying notes to the condensed consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
REVENUES:				
Water services	$ 4,963	$ 4,465	$ 12,344	$ 11,496
Wastewater and recycled water services	4,962	4,515	14,393	13,330
Unregulated revenues	17	19	49	2,436
Total revenues	9,942	8,999	26,786	27,262
OPERATING EXPENSES:				
Operations and maintenance	1,914	1,808	5,417	4,938
Operations and maintenance - related party	435	386	1,287	1,146
General and administrative	3,074	2,942	8,099	8,159
Depreciation and amortization	1,957	1,807	5,977	5,495
Total operating expenses	7,380	6,943	20,780	19,738
OPERATING INCOME	2,562	2,056	6,006	7,524
OTHER INCOME (EXPENSE):				
Interest income	49	22	167	37
Interest expense	(1,341)	(1,358)	(4,044)	(3,893)
Other	68	82	1,218	559
Other - related party	97	52	213	110
Total other expense	(1,127)	(1,202)	(2,446)	(3,187)
INCOME BEFORE INCOME TAXES	1,435	854	3,560	4,337
INCOME TAX EXPENSE	(388)	(221)	(1,086)	(1,128)
NET INCOME	$ 1,047	$ 633	$ 2,474	$ 3,209
Basic earnings per common share	$ 0.05	$ 0.03	$ 0.12	$ 0.16
Diluted earnings per common share	$ 0.05	$ 0.03	$ 0.11	$ 0.16
Dividends declared per common share	$ 0.07	$ 0.07	$ 0.21	$ 0.21
Weighted average number of common shares used in the determination of:				
Basic	21,536,834	21,088,456	21,509,770	20,130,574
Diluted	21,571,240	21,117,810	21,521,255	20,169,998

See accompanying notes to the condensed consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share and per share amounts)
(Unaudited)

	Three and Nine Months Ended September 30, 2018						
	Common Stock Shares	Common Stock	Treasury Stock Shares	Treasury Stock	Paid-in Capital	Retained Earnings	Total Equity
BALANCE - December 31, 2017	19,631,266	$ 196	—	$ —	$ 14,288	$ 376	$ 14,860
Dividend declared $0.07 per share	—	—	—	—	(695)	(696)	(1,391)
Stock compensation	—	—	—	—	98	—	98
Net income	—	—	—	—	—	320	320
BALANCE - March 31, 2018	19,631,266	$ 196	—	$ —	$ 13,691	$ —	$ 13,887
Dividend declared $0.07 per share	—	—	—	—	—	(1,395)	(1,395)
Treasury Stock	—	—	(20,673)	—	—	—	—
Stock option exercise	125,000	1	—	—	749	—	750
Stock compensation	—	—	—	—	90	—	90
Net income	—	—	—	—	—	2,256	2,256
BALANCE - June 30, 2018	19,756,266	$ 197	(20,673)	$ —	$ 14,530	$ 861	$ 15,588
Dividend declared $0.07 per share			—	—	(28)	(1,494)	(1,522)
Issuance of common stock	1,720,000	17	—	—	14,619	—	14,636
Treasury stock	—	—	(38,501)	(1)	—	—	(1)
Stock option exercise	54,204	1	—	—	39	—	40
Stock compensation	—	—	—	—	68	—	68
Net income	—	—	—	—	—	633	633
BALANCE - September 30, 2018	21,530,470	$ 215	(59,174)	$ (1)	$ 29,228	$ —	$ 29,442

GLOBAL WATER RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share and per share amounts)
(Unaudited)

	Three and Nine Months Ended September 30, 2019						
	Common Stock Shares	Common Stock	Treasury Stock Shares	Treasury Stock	Paid-in Capital	Retained Earnings	Total Equity
BALANCE - December 31, 2018	21,530,470	$ 215	(59,174)	$ (1)	$ 27,657	$ —	$ 27,871
Dividend declared $0.07 per share	—	—	—	—	(888)	(649)	(1,537)
Treasury stock	—	—	—	—	—	—	—
Stock option exercise	—	—	—	—	—	—	—
Stock compensation	—	—	—	—	65	—	65
Net income	—	—	—	—	—	649	649
BALANCE - March 31, 2019	21,530,470	$ 215	(59,174)	$ (1)	$ 26,834	$ —	$ 27,048
Dividend declared $0.07 per share	—	—	—	—	(764)	(778)	(1,542)
Treasury stock	—	—	(38,462)	—	—	—	—
Stock option exercise	104,000	1	—	—	412	—	413
Stock compensation	—	—	—	—	66	—	66
Net income	—	—	—	—	—	778	778
BALANCE - June 30, 2019	21,634,470	$ 216	(97,636)	$ (1)	$ 26,548	$ —	$ 26,763
Dividend declared $0.07 per share	—	—	—	—	(494)	(1,047)	(1,541)
Treasury stock	—	—	—	—	—	—	—
Stock option exercise	—	—	—	—	—	—	—
Stock compensation	—	—	—	—	93	—	93
Net income	—	—	—	—	—	1,047	1,047
September 30, 2019	21,634,470	$ 216	(97,636)	$ (1)	$ 26,147	$ —	$ 26,362

See accompanying notes to the condensed consolidated financial statements

GLOBAL WATER RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,474	$ 3,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred compensation	1,412	1,475
Depreciation and amortization	5,977	5,495
Amortization of deferred debt issuance costs and discounts	73	33
Loss on equity investment	79	221
Other gains	(1)	(28)
Provision for doubtful accounts receivable	34	68
Deferred income tax expense	660	1,049
Changes in assets and liabilities		
Accounts receivable	(326)	(195)
Other current assets	(341)	(636)
Accounts payable and other current liabilities	245	980
Other noncurrent assets	56	—
Other noncurrent liabilities	835	(1,495)
Net cash provided by operating activities	11,177	10,176
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(7,785)	(3,404)
Cash paid for acquisitions, net of cash acquired	—	(2,619)
Other cash flows from investing activities	3	64
Net cash used in investing activities	(7,782)	(5,959)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(4,620)	(4,308)
Advances in aid of construction	743	579
Proceeds from stock option exercise	413	790
Principal payments under capital lease	(40)	(18)
Refunds of advances for construction	(903)	(892)
Loan borrowings	31	14
Loan repayments	(39)	(8)
Proceeds from sale of stock	—	15,910
Debt issuance costs paid	(40)	(19)
Payments of offering costs for sale of stock	—	(1,274)
Net cash (used) provided by financing activities	(4,455)	10,774
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(1,060)	14,991
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — Beginning of period	13,197	5,684
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – End of period	$ 12,137	$ 20,675

See accompanying notes to the condensed consolidated financial statements

Supplemental disclosure of cash flow information:

	September 30, 2019	September 30, 2018
Cash and cash equivalents	$ 11,091	$ 20,173
Restricted Cash	1,046	502
Total cash, cash equivalents, and restricted cash	$ 12,137	$ 20,675

GLOBAL WATER RESOURCES, INC.
Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION, CORPORATE TRANSACTIONS, SIGNIFICANT ACCOUNTING POLICIES, AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements of Global Water Resources, Inc. (the “Company”, “GWRI”, “we”, “us”, or “our”) and related disclosures as of September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018 are unaudited. The December 31, 2018 condensed consolidated balance sheet data was derived from the Company’s audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These financial statements follow the same accounting policies and methods of their application as the Company’s most recent annual consolidated financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018. In our opinion, these financial statements include all normal and recurring adjustments necessary for the fair statement of the results for the interim period. The results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for the full year, due to the seasonality of our business.

The Company prepares its financial statements in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The preparation of the financial statements in conformity with U.S. GAAP requires management 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 financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The Company qualifies as an “emerging growth company”, as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), under the rules and regulations of the SEC. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. The Company elected to take advantage of these provisions for up to five years or such earlier time that the Company is no longer an emerging growth company. The Company has elected to take advantage of some of the reduced disclosure obligations regarding financial statements. Also, as an emerging growth company the Company can elect to delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has chosen to take advantage of this extended accounting transition provision.

Corporate Transactions

Sale of certain MXA and WMA contracts

In September 2013, the Company sold its Wastewater Facilities Main Extension Agreements (“MXA”) and Offsite Water Management Agreements (“WMA") for the contemplated Loop 303 service area along with their related rights and obligations to EPCOR Water Arizona Inc. (“EPCOR”) (collectively the “Transfer of Project Agreement”, or “Loop 303 Contracts”). Pursuant to the Transfer of Project Agreement, EPCOR agreed to pay GWRI approximately $4.1 million over a multi-year period. The Company received the remaining $1.0 million of proceeds in March 2019 and recorded the amount in other income due to the completion of certain milestones between EPCOR and the developers/landowners.

Stipulated Condemnation of the Operations and Assets of Valencia Water Company, Inc.

On July 14, 2015, the Company closed the stipulated condemnation to transfer the operations and assets of Valencia Water Company, Inc. ("Valencia") to the City of Buckeye. Terms of the condemnation were agreed upon through a settlement agreement and stipulated final judgment of condemnation wherein the City of Buckeye acquired all the operations and assets of Valencia and assumed operation of the utility upon close. The City of Buckeye is obligated to pay the Company a growth premium equal to $3,000 for each new water meter installed within Valencia’s prior service areas in the City of Buckeye, for a 20-year period ending December 31, 2034, subject to a maximum payout of $45.0 million over the term of the agreement. The Company received growth premiums of $0.1 million for both the three months ended September 30, 2019 and 2018, and $0.2 million and $0.5 million for the nine months ended September 30, 2019 and 2018, respectively.

Private Letter Ruling

On June 2, 2016, the Company received a Private Letter Ruling from the Internal Revenue Service ("IRS") that, for purposes of deferring the approximately $19.4 million gain realized from the condemnation of the operations and assets of Valencia, determined that the assets converted upon the condemnation of such assets could be replaced through certain reclamation facility improvements contemplated by the Company under Internal Revenue Code §1033 as property similar or related in service or use. In June 2016, the Company converted all operating subsidiaries from corporations to limited liability companies to take full advantage of the benefits of such ruling.

Pursuant to Internal Revenue Code §1033, the Company would have been able to defer the gain on condemnation through the end of 2017. On April 18, 2017, the Company filed a request for a one-year extension to defer the gain to the end of 2018, which the IRS approved on August 8, 2017. On August 28, 2018, the Company filed a request to further defer the gain to the end of 2019, which the IRS approved on October 12, 2018. Following the most recent Private Letter Ruling extension, the Company expects an increase in capital expenditures for 2019 compared to 2018 to fully defer the remaining tax liability of approximately $1.0 million as of September 30, 2019. Although the Company anticipates that the full amount of the deferral will be utilized by the end of 2019, as a precautionary measure, the Company is preparing a request for an additional deferral through the end of 2020.

Acquisitions

Turner Ranches Water and Sanitation Company

On May 30, 2018, the Company acquired Turner Ranches Water and Sanitation Company ("Turner"), a non-potable irrigation water utility in Mesa, Arizona, for total consideration of approximately $2.8 million in cash. Refer to Note 7 — "Acquisitions" of the notes to the unaudited condensed consolidated financial statements for additional information regarding the Turner acquisition.

Red Rock Utilities

On October 16, 2018, the Company completed the acquisition of Red Rock Utilities ("Red Rock"), an operator of a water and a wastewater utility with service areas in the Pima and Pinal counties of Arizona, for a purchase price of $5.9 million. The acquisition added over 1,650 connections and approximately 9 square miles of service area. The Company is obligated to pay to the seller a growth premium equal to $750 for each new account established within three specified growth premium areas, commencing in each area on the date of the first meter installation and ending on the earlier of ten years after such first installation date or twenty years from the acquisition date. The three specified growth premium areas are located in Pima County, Arizona where Red Rock has not yet begun operating, and where Red Rock is authorized to provide water utility services only. As of September 30, 2019, no meters have been installed and no accounts have been established in any of the three growth premium areas. Refer to Note 7 — "Acquisitions" of the notes to the unaudited condensed consolidated financial statements for additional information regarding the Red Rock acquisition.

Common Stock Offering

On July 20, 2018, the Company completed a public offering of 1,720,000 shares of common stock at a public offering price of $9.25 per share, for gross proceeds of $15.9 million, which included 220,000 shares issued and sold pursuant to the underwriter's exercise in full of its option to purchase additional shares. The Company received net proceeds of approximately $14.6 million after deducting underwriting discounts and commissions and offering expenses payable by the Company, which collectively totaled $1.3 million.

Arizona Corporation Commission (the "ACC") Tax Docket

The Company had regulatory assets of $1.7 million and $1.8 million at September 30, 2019 and December 31, 2018, respectively, and regulatory liabilities of $0.6 million at both September 30, 2019 and December 31, 2018 related to the Federal Tax Cuts and Jobs Act (the "TCJA") signed into law on December 22, 2017. Under ASC 740, *Income Taxes*, the tax effects of changes in tax laws must be recognized in the period in which the law is enacted. ASC 740 also requires deferred income tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Company's deferred income taxes were re-measured based upon the new tax rate. For the Company's regulated entities, substantially all of the change in deferred income taxes is recorded as an offset to either a regulatory asset or liability because the impact of changes in the rates are expected to be recovered from or refunded to customers.

On December 20, 2017, the ACC opened a docket to address the utility ratemaking implications of the TCJA. The ACC considered the impact for regulated utilities, as it was expected that certain effects of the TCJA add to rate base and others reduce rate base.

Numerous companies, including our regulated utilities, filed comments with the ACC in January 2018. The ACC subsequently approved an order in February 2018 requiring Arizona utilities to apply regulatory accounting treatment, which includes the use of regulatory assets and regulatory liabilities, to address all impacts from the enactment of the TCJA.

On September 20, 2018, the ACC issued Rate Decision No. 76901, which set forth the reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah and Northern Scottsdale utilities due to the TCJA. Rate Decision No. 76901 adopted a phase-in approach for the reductions to match the phase-in of our revenue requirement under Rate Decision No. 74364 enacted in February 2014. In 2018, the aggregate annual reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities was approximately $782,000. In 2021, the final year of the phase-in, the aggregate annual reductions in revenue for our Santa Cruz, Palo Verde, Tonopah, and Northern Scottsdale utilities will be approximately $1.1 million. The ACC also approved a carrying cost of 4.25% on regulatory liabilities resulting from the difference of the fully phased-in rates to be applied in 2021 versus the phased-in rates refunded in the years leading up to 2021 (i.e. 2018 through 2020).

Rate Decision No. 76901, however, did not address the impacts of the TCJA on accumulated deferred income taxes (“ADIT”), including excess ADIT (“EADIT”). The ACC requested the Company to submit a proposal by December 19, 2018 regarding the impact of the TCJA on its ADIT as of January 1, 2018, and the related EADIT amortization methods for both the plant-related (the protected element of EADIT) and the non-plant related (the unprotected portion of EADIT) assets, as appropriate. On December 19, 2018, the Company submitted the required filing and proposed that as part of a required July 1, 2019 filing, it would propose revised tariffs that incorporate the appropriate rate impacts. The Company made its filing proposing revised tariffs on June 14, 2019. ACC Staff reviewed the filing and requested that the Company defer tariff revisions until such revisions can be considered in the next rate case. ACC Staff also requested that the Company defer consideration of the regulatory assets and regulatory liabilities associated with 2018 EADIT amortization. On July 18, 2019, the Company made a filing proposing these items be deferred to the next rate case. Refer to " — Recent Rate Case Activity — ACC Rate Case" for additional information regarding the Company's next rate case.

Previously, the ACC Chairman noted that there may be some unintended consequences related to the tax treatment of contributions in aid of construction ("CIAC") and advances in aid of construction ("AIAC"), which are now taxable with the enactment of the TCJA. Following receipt of comments from various parties, including from us, and a recommendation from the ACC Staff, the ACC adopted an order in November 2018 relating to the funding for income taxes on CIACs and AIACs that provides for the following: 1) requires that under the hybrid sharing method, a contributor will pay a gross-up to the utility consisting of 55% of the income tax expense with the utility covering the remaining 45% of the income tax expense; 2) removes the full gross-up method option for Class A and B utilities and their affiliates (which includes all of our utilities); 3) ensures proper ratemaking treatment of a utility using the self-pay method; 4) clarifies that pass-through entities that are owned by a “C” corporation can recover tax expense according to methods allowed; and 5) requires Class A and B utilities to self-pay the taxes associated with hook-up fee contributions but permits using a portion of the hook-up fees to fund these taxes. The ACC amended the November order by issuing Decision No. 77084 on February 20, 2019 and Decision No. 77104 on February 28, 2019, which imposed additional limits on grossing up CIAC, which we do not believe will be material to us.

Recent Rate Case Activity

ACC Rate Case

On March 20, 2019, the Company filed a motion with the ACC to request an order for certain of our utilities to file a rate case. Thereafter, on April 26, 2019, the ACC issued Decision No. 77168, which requires all of our utilities to file a rate case no later than June 30, 2020, using the twelve months ending December 31, 2019 as the test year for the rate case. The outcome of the new rate case cannot be predicted, but we anticipate that new rates would not take effect before the second half of 2021. We are in the initial stages of evaluating and preparing for the rate case, but we anticipate requesting a moderate increase in rates. There is no guarantee that the ACC will approve a rate increase or whether the ACC will take any other actions as a result of the rate case, including a decision to decrease future rates.

Significant Accounting Policies

Basic and Diluted Earnings per Common Share

As of September 30, 2019, the Company had 640,796 options outstanding to acquire an equivalent number of shares of GWRI common stock. At September 30, 2019 there were no options outstanding from the 2016 option grant. The 390,796 options outstanding from the 2017 option grant equated to 34,406 and 11,485 common share equivalents for the three and nine months ended September 30, 2019, respectively, which were included within the calculation of diluted earnings per share for the three and nine months ended September 30, 2019. The 250,000 options outstanding from the 2019 option grant were not included for the three and nine months ended September 30, 2019 dilutive earnings per share calculation, as to do so would be antidilutive. Refer to Note 14 – "Deferred Compensation Awards" for additional information regarding the option grants.

As of September 30, 2018, the Company had 499,896 options outstanding to acquire an equivalent number of shares of GWRI common stock. The 100,000 options outstanding from the 2016 option grant equated to 29,354 and 39,424 common share equivalents for the three and nine months ended September 30, 2018, respectively, which were included within the calculation of diluted earnings per share for the three and nine months ended September 30, 2018. The 399,896 options outstanding from the 2017 option grant were not included for the three and nine months ended September 30, 2018 dilutive earnings per share calculation, as to do so would be antidilutive. Refer to Note 14 – "Deferred Compensation Awards" for additional information regarding the option grants.

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09" or "ASC 606"), which completes the joint effort between the FASB and International Accounting Standards Board to converge the recognition of revenue between the two boards. The new standard affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets not included within other FASB standards. The guiding principal of the new standard is that an entity should recognize revenue in an amount that reflects the consideration to which an entity expects to be entitled for the delivery of goods and services. ASU 2014-09 may be adopted using either of two acceptable methods: (1) retrospective adoption to each prior period presented with the option to elect certain practical expedients; or (2) adoption with the cumulative effect recognized at the date of initial application and providing certain disclosures. To assess at which time revenue should be recognized, an entity should use the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. Due to qualifying as an emerging growth company, the Company adopted ASC 606 on January 1, 2019. The Company concluded its evaluation of the new revenue standards and implemented it on January 1, 2019 using the modified retrospective method for all contracts. The reported results for the first, second and third quarters of 2019 reflect the application of ASC 606 guidance, while prior period amounts were not adjusted and continue to be reported in accordance with the accounting standard in effect for those periods. The adoption of ASC 606 had no significant impact on the timing of revenue recognition compared to previously reported results; however, enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows arising from contracts with customers were made. Refer to Note 3 — "Revenue Recognition" of the notes to the unaudited condensed consolidated financial statements for additional information.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)* ("ASU 2016-18"). ASU 2016-18 requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. Due to qualifying as an emerging growth company, the Company adopted ASU 2016-18 during the first quarter of 2019 and applied the standard retrospectively for all periods presented. Accordingly, for the nine months September 30, 2018, the Company included restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows and removed the change in restricted cash from the cash flows from investing activities. This change resulted in a decrease in net cash used in investing activities of $66,000 as of September 30, 2018.

Future Adoption of Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02", or "ASC 842"). ASU 2016-02 requires lessees to record a right-of-use asset and corresponding lease obligation for lease arrangements with a term of greater than twelve months. ASU 2016-02 requires additional disclosures about leasing arrangements and requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. Due to qualifying as an emerging growth company, the Company is required to adopt the ASU on January 1, 2020. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842* ("ASU 2018-10"). ASU 2018-10 improves various aspects within ASC 842, such as rate implicit in the lease, lessee's reassessment of lease classification, lease term and purchase option, as well as many other aspects of the guidance. The ASU is effective when the entity adopts ASC 842, which will be January 1, 2020 for the Company. The Company is currently assessing the impact that adopting this new standard will have on its consolidated financial statements.

In July 2018, the FASB issued ASU 2018-11, *Leases Topic 842, Targeted Improvements* ("ASU 2018-11"). ASU 2018-11 provides entities the option to elect not to recast the comparative periods presented when transitioning to ASC 842 and lessors may elect not to separate lease and non-lease components when certain conditions are met. The ASU is effective when the entity adopts ASC 842, which will be January 1, 2020 for the Company. The Company is currently assessing the impact that adopting this new standard will have on its consolidated financial statements but does not expect a material effect.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 from the impairment test which requires entities to determine the implied fair value of goodwill to measure if any impairment expense is necessary. Instead, entities will record impairment expenses based on the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Due to qualifying as an emerging growth company, the Company is required to adopt the ASU on January 1, 2022. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, *Codification Improvements* ("ASU 2018-09"). ASU 2018-09 clarifies, corrects errors in, or makes minor improvements to the accounting standards codification. The effective date of the standard is dependent on the facts and circumstances of each amendment. Due to qualifying as an emerging growth company, the Company is required to adopt the ASU on January 1, 2020. Early adoption is permitted. The Company is currently assessing the impact that adopting this new standard will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)* ("ASU 2018-13"). ASU 2018-13 changes the fair value disclosure requirements including new, eliminated, and modified disclosure requirements of ASC 820. Specifically, the ASU requires the addition of disclosures for Level 3 fair value measurements with unrealized gains and losses included in other comprehensive income and disclosure of the range and weighted average used to develop significant unobservable inputs for Level 3 measurements. The ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently assessing the impact that adopting this new standard will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Topic 350)* ("ASU 2018-15"). ASU 2018-15 amends ASC 350 to include in its scope implementation costs of a Cloud Computing Arrangement ("CCA") that is a service contract and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a CCA that is considered a service contract. Due to qualifying as an emerging growth company, the Company is required to adopt the ASU on January 1, 2021. Early adoption is permitted, including adoption in any interim period. The Company is currently assessing the impact that adopting this new standard will have on its consolidated financial statements.

2. REGULATORY DECISION AND RELATED ACCOUNTING AND POLICY CHANGES

Our regulated utilities and certain other balances are subject to regulation by the ACC and meet the requirements for regulatory accounting found within Accounting Standards Codification 980, *Regulated Operations* ("ASC 980").

In accordance with ASC 980, rates charged to utility customers are intended to recover the costs of the provision of service plus a reasonable return in the same period. Changes to the rates are made through formal rate applications with the ACC, which we have done for all of our operating utilities as described below.

On July 9, 2012, we filed formal rate applications with the ACC to adjust the revenue requirements for seven utilities (Water Utility of Greater Tonopah, Valencia Water Company - Greater Buckeye Division, Water Utility of Northern Scottsdale, Global Water - Santa Cruz Water Company, Global Water - Palo Verde Utilities, Valencia Water Company, and Willow Valley Water Company) representing a collective rate increase of approximately 28% over 2011 revenue levels. In August 2013, the Company entered into a settlement agreement with ACC Staff, the Residential Utility Consumers Office, the City of Maricopa, and other parties to the rate case. The settlement required approval by the ACC’s Commissioners before it could take effect. In February 2014, the rate case proceedings were completed and the ACC issued Rate Decision No. 74364, effectively approving the settlement agreement. The rulings of the decision include, but are not limited to, the following:

- For the Company’s utilities referenced above, adjusting for the condemnation of the operations and assets of Valencia and sale of Willow Valley Water Co., Inc. ("Willow Valley"), which occurred in 2015 and 2016, respectively, a collective revenue requirement increase of $3.6 million based on 2011 test year service connections, phased-in over time, with the first increase in January 2015 as follows (in thousands, not updated for the TCJA, refer to Note 1 — "Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions— ACC Tax Docket" of the notes to the unaudited condensed consolidated financial statements for further details):

	Incremental	Cumulative
2015	$ 1,083	$ 1,083
2016	887	1,970
2017	335	2,305
2018	335	2,640
2019	335	2,975
2020	335	3,310
2021	335	3,645

Whereas this phase-in of additional revenues was determined using a 2011 test year, to the extent that the number of active service connections increases from 2011 levels, the additional revenues may be greater than the amounts set forth above. On the other hand, if active connections decrease or we experience declining usage per customer, we may not realize all of the anticipated revenues.

- Full reversal of the imputation of CIAC balances associated with funds previously received under infrastructure coordination and financing agreements ("ICFAs"), as required in the Company’s last rate case. The reversal restored rate base or future rate base and had a significant impact of restoring shareholder equity on the balance sheet.
- The Company has agreed to not enter into any new ICFAs. Existing ICFAs will remain in place, but a portion of future payments to be received under the ICFAs will be considered as hook-up fees, which are accounted for as CIAC once expended on plant.
- A 9.5% return on common equity was adopted.

On September 20, 2018, the ACC issued Rate Decision No. 76901, which set forth the reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities due to the TCJA. Rate Decision No. 76901 adopted a phase-in approach for the reductions to match the phase-in of our revenue requirements under Rate Decision No. 74364. Refer to Note 1 — "Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions — ACC Tax Docket" for details regarding Rate Decision No. 76901.

The following provides additional discussion on accounting and policy changes resulting from Rate Decision No. 74364.

Infrastructure Coordination and Financing Agreements – ICFAs are agreements with developers and homebuilders whereby GWRI, the indirect parent of the operating utilities, provides services to plan, coordinate, and finance the water and wastewater infrastructure that would otherwise be required to be performed or subcontracted by the developer or homebuilder.

Under the ICFAs, GWRI has a contractual obligation to ensure physical capacity exists through its regulated utilities for water and wastewater to the landowner/developer when needed. This obligation persists regardless of connection growth. Fees for these services are typically a negotiated amount per equivalent dwelling unit for the specified development or portion of land. Payments are generally due in installments, with a portion due upon signing of the agreement, a portion due upon completion of certain milestones, and the final payment due upon final plat approval or sale of the subdivision. The payments are non-refundable. The agreements are generally recorded against the land and must be assumed in the event of a sale or transfer of the land. The regional planning and coordination of the infrastructure in the various service areas has been an important part of GWRI’s business model.

In February 2014, the ACC issued Rate Decision No. 74364, and concluded ICFA funds already received would no longer be deemed CIAC for rate making purposes. ICFA funds already received or which had become due prior to the date of Rate Decision No. 74364 were recognized as revenue once the obligations specified in the ICFA were met. Rate Decision No. 74364 prescribes that of the ICFA funds which come due and are paid subsequent to December 31, 2013, 70% of the ICFA funds will be recorded in the associated utility subsidiary as a hook-up fee (“HUF”) liability, with the remaining 30% to be recorded as deferred revenue, which the Company accounts for in accordance with the Company's ICFA revenue recognition policy. A HUF tariff, specifying the dollar value of a HUF for each utility, was approved by the ACC as part of Rate Decision No. 74364. The Company is responsible for assuring the full HUF value is paid from ICFA proceeds, and recorded in its full amount, even if it results in recording less than 30% of the ICFA fee as deferred revenue.

The Company will account for the portion allocated to the HUF as a CIAC contribution. However, in accordance with the ACC directives the CIAC is not deducted from rate base until the HUF funds are expended for utility plant. Such funds will be segregated in a separate bank account and used for plant. A HUF liability will be established and will be amortized as a reduction of depreciation expense over the useful life of the related plant once the HUF funds are utilized for the construction of plant. For facilities required under a HUF or ICFA, the utilities must first use the HUF moneys received, after which, it may use debt or equity financing for the remainder of construction. The Company will record 30% of the funds received, up until the HUF liability is fully funded, as deferred revenue, which is to be recognized as revenue once the obligations specified within the ICFA are met, including construction of sufficient operating capacity to serve the customers for which revenue was deferred.

As of September 30, 2019 and December 31, 2018, ICFA deferred revenue recorded on the consolidated balance sheet totaled $17.4 million, which represents deferred revenue recorded for ICFA funds received on contracts that had become due prior to Rate Decision No. 74364. Refer to Note 3 — "Revenue Recognition" of the notes to the unaudited condensed consolidated financial statements for additional discussion regarding ICFA revenue.

Intangible assets / Regulatory liability – The Company previously recorded certain intangible assets related to ICFA contracts obtained in connection with our Santa Cruz, Palo Verde, and Sonoran acquisitions. The intangible assets represented the benefits to be received over time by virtue of having those contracts. Prior to January 1, 2010, the ICFA-related intangibles were amortized when ICFA funds were recognized as revenue. Effective January 1, 2010, in connection with the 2010 Regulatory Rate Decision, these assets became fully offset by a regulatory liability of $11.2 million since the imputation of ICFA funds as CIAC effectively resulted in the Company not being able to benefit (through rates) from the acquired ICFA contracts.

Effective January 1, 2010, the gross ICFAs intangibles began to be amortized when cash was received in proportion to the amount of total cash expected to be received under the underlying agreements. However, such amortization expense was offset by a corresponding reduction of the regulatory liability in the same amount.

As a result of Rate Decision No. 74364, the Company changed its policy around the ICFA related intangible assets. As discussed above, pursuant to Rate Decision No. 74364, approximately 70% of ICFA funds to be received in the future will be recorded as a HUF, until the HUF is fully funded at the Company’s applicable utility subsidiary. The remaining approximate 30% of future ICFA funds will be recorded at the parent company level and will be subject to the Company’s ICFA revenue recognition accounting policy. As the Company now expects to experience an economic benefit from the approximately 30% portion of future ICFA funds, 30% of the regulatory liability, or $3.4 million, was reversed in 2014. The remaining 70% of the regulatory liability, or $7.9 million, will continue to be recorded on the balance sheet.

Subsequent to Rate Decision No. 74364, the intangible assets will continue to amortize when the corresponding ICFA funds are received in proportion to the amount of total cash expected to be received under the underlying agreements. The recognition of amortization expense will be partially offset by a corresponding reduction of the regulatory liability.

The Company recorded regulatory liabilities in the amount of $8.7 million, of which $7.6 million relates to the offset of intangible assets related to ICFA contracts obtained in connection with our Santa Cruz, Palo Verde, and Sonoran acquisitions, and the remaining $1.1 million relates to the TCJA rate reduction mandated by the ACC pursuant to Rate Decision No. 76901.

3. REVENUE RECOGNITION

On January 1, 2019, the Company adopted ASC 606*,* using the modified retrospective approach. The Company identified its sources of revenue streams that fall within the scope of this guidance and applied the five-step model to all qualifying revenue streams to determine when to recognize revenue. The Company concluded that there is not a material change to how revenue was recognized before and after the adoption of ASC 606; therefore, no cumulative retained earnings adjustment was required.

Regulated Revenue

The Company's operating revenues are primarily attributable to regulated services based upon tariff rates approved by the ACC. Regulated service revenues consist of amounts billed to customers based on approved fixed monthly fees and consumption fees, as well as unbilled revenues estimated from the last meter reading date to the end of the accounting period utilizing historical customer data recorded as accrued revenue. The measurement of sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, the Company estimates consumption since the date of the last meter reading and a corresponding unbilled revenue is recognized. The unbilled revenue estimate is based upon the number of unbilled days that month and the average daily customer billing rate from the previous month (which fluctuates based upon customer usage). The Company applies the invoice practical expedient and recognizes revenue from contracts with customers in the amount for which the Company has a right to invoice. The Company has the right to invoice for the volume of consumption, service charge, and other authorized charges.

The Company satisfies its performance obligation to provide water and wastewater services over time as the services are rendered. Regulated services may be terminated by the customers at will, and, as a result, no separate financing component is recognized for the Company's collections from customers, which generally require payment within 15 days of billing. The Company applies judgment, based principally on historical payment experience, in estimating its customers' ability to pay.

The Company has elected to apply the sales tax practical expedient, whereby qualifying excise and other taxes collected from customers and remitted to governmental authorities are not included in reported revenues.

Unregulated Revenue

Unregulated revenues represent those revenues that are not subject to the ratemaking process of the ACC. Unregulated revenues are limited to rental revenue and imputed revenues resulting from a portion of ICFA funds received. ICFAs are agreements with developers and homebuilders where the Company provides services to plan, coordinate, and finance the water and wastewater infrastructure that would otherwise be required to be performed or subcontracted by the developer or homebuilder. In return, the developers and homebuilders pay the Company an agreed-upon amount per dwelling unit for the specified development or portion of land. In addition, under ICFA agreements, the Company has a contractual obligation to ensure physical capacity exists through its regulated utilities for water and wastewater to the developer when needed. This obligation persists regardless of connection growth.

The Company believes that these services are not distinct in the context of the contract because they are highly interdependent with the Company’s ability to provide fitted capacity for water and wastewater services. The Company concluded that the goods and services provided under ICFA contracts constitute a single performance obligation.

IFCA revenue is recognized at a point in time when the Company has the necessary capacity in place within its infrastructure to provide water/wastewater services to the developer. The Company exercises judgment when estimating the number of equivalent dwelling units that the Company has capacity to serve.

Disaggregated Revenues

For the three and nine months ended September 30, 2019 and 2018, disaggregated revenues from contracts with customers by major source and customer class are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
REGULATED REVENUE				
Water Services				
Residential	$ 3,151	$ 2,978	$ 8,652	$ 8,200
Irrigation	1,320	1,111	2,452	2,199
Commercial	228	214	583	630
Construction	37	63	104	201
Other water revenues	227	192	553	545
Total water revenues	4,963	4,558	12,344	11,775
Wastewater and recycled water services				
Residential	4,293	3,867	12,698	11,457
Commercial	229	199	678	602
Recycled water revenues	335	264	717	698
Other wastewater revenues	105	92	300	294
Total wastewater and recycled water revenues	4,962	4,422	14,393	13,051
TOTAL REGULATED REVENUE	9,925	8,980	26,737	24,826
UNREGULATED REVENUE				
ICFA revenues	—	—	—	2,388
Rental revenues	16	16	48	45
Other Miscellaneous revenues	1	3	1	3
TOTAL UNREGULATED REVENUE	17	19	49	2,436
TOTAL REVENUE	$ 9,942	$ 8,999	$ 26,786	$ 27,262

Contract Balances

Our contract assets and liabilities consist of the following (in thousands):

	September 30, 2019	December 31, 2018
CONTRACT ASSETS		
Accounts receivable		
Water services	$ 1,039	$ 795
Wastewater and recycled water services	834	838
Total contract assets[1]	$ 1,873	$ 1,633
CONTRACT LIABILITIES		
Deferred revenue - ICFA	$ 17,371	$ 17,358
Refund liability - regulated[2]	510	340
Total contract liabilities	$ 17,881	$ 17,698

(1) The increase in accounts receivable was primarily due to normal timing differences between performance and customer payments.

(2) The increase in refund liability is due to the phase-in approach approved in Rate Decision No. 76901. Refer to Note 1—"Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions — ACC Tax Docket" of the notes to the unaudited condensed consolidated financial statements for further details.

Remaining Performance Obligations

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted revenue expected to be recognized in future periods was approximately $17.4 million at both September 30, 2019 and December 31, 2018. Deferred revenue is recognized as revenue once the obligations specified within the applicable ICFA are met, including construction of sufficient operating capacity to serve the customers for which revenue was deferred. Due to the uncertainty of future events, the Company is unable to estimate when to expect recognition of deferred revenue.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment at September 30, 2019 and December 31, 2018 consist of the following (in thousands):

	September 30, 2019	December 31, 2018	Average Depreciation Life (in years)
Mains/lines/sewers	$ 134,738	$ 131,768	47
Plant	86,726	81,471	25
Equipment	35,225	37,392	10
Meters	13,811	13,606	12
Furniture, fixture and leasehold improvements	371	371	8
Computer and office equipment	739	639	5
Software	241	241	3
Land and land rights	1,051	897	
Other	557	589	
Construction work-in-process	47,568	45,174	
Total property, plant and equipment	321,027	312,148	
Less accumulated depreciation	(90,760)	(85,093)	
Net property, plant and equipment	$ 230,267	$ 227,055	

5. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2019 and December 31, 2018 consist of the following (in thousands):

	September 30, 2019	December 31, 2018
Billed receivables	$ 1,873	$ 1,633
Less allowance for doubtful accounts	(93)	(145)
Accounts receivable – net	$ 1,780	$ 1,488

6. EQUITY METHOD INVESTMENT

On June 5, 2013, the Company sold Global Water Management, LLC (“GWM”), a wholly-owned subsidiary of GWRI, that owned and operated the FATHOM™ Water Management Holdings, LLP ("FATHOM") business. In connection with the sale of GWM, the Company made a $1.6 million investment in FATHOM (the "FATHOM investment”). This limited partnership investment is accounted for under the equity method due to the FATHOM investment being considered more than minor.

The carrying value of the FATHOM investment consisted of a balance of zero as of September 30, 2019 and $0.1 million as of December 31, 2018, and reflects our initial investment, the adjustments related to subsequent rounds of financing, and our proportionate share of FATHOM's cumulative earnings.

7. ACQUISITIONS

Acquisition of Turner

On May 30, 2018, the Company acquired all of the equity of Turner, a rate regulated non-potable irrigation water utility in Mesa, Arizona, for total consideration of $2.8 million. This acquisition is consistent with the Company's declared strategy of making accretive acquisitions. At the time of acquisition, Turner had 963 residential irrigation connections and approximately seven square miles of service area. The acquisition was accounted for as a business combination under ASC 805, "*Business Combinations*." The purchase price was allocated to the acquired utility assets and liabilities assumed based on the seller's book value at acquisition as the historical cost of these assets and liabilities will be the amounts that will continue to be reflected in customer rates.

Final purchase price allocation of the net assets acquired in the transaction is as follows (in thousands):

Net assets acquired:		
Cash	$	176
Accounts receivable		121
Gross property, plant and equipment		4,495
Construction work-in-progress		92
Accumulated depreciation		(3,554)
Accounts payable		(30)
Accrued expenses		(49)
Total net assets assumed		1,251
Goodwill		1,549
Total purchase price	$	2,800

The revenue and earnings recognized post acquisition and the pro forma effect of the business acquired are not material to the Company's financial position or results of operations.

Acquisition of Red Rock

On October 16, 2018, the Company acquired Red Rock, a rate-regulated operator of a water and a wastewater utility with service areas in the Pima and Pinal counties of Arizona, for total consideration of $5.9 million. This acquisition is consistent with the Company's declared strategy of making accretive acquisitions. The acquisition added over 1,650 connections and approximately nine square miles of service area. The acquisition was accounted for as a business combination under ASC 805, "*Business Combinations*." The purchase price was allocated to the acquired utility assets and liabilities assumed based on the seller's book value at acquisition as the historical cost of these assets and liabilities will be the amounts that will continue to be reflected in customer rates. Based on additional information as of September 30, 2019, the initial fair value of net assets decreased an additional $1.8 million, with a corresponding increase to goodwill of $1.8 million.

Under the terms of the purchase agreement, the Company is obligated to pay to the seller a growth premium equal to $750 for each new account established within three specified growth premium areas, commencing in each area on the date of the first meter installation and ending on the earlier of ten years after such first installation date or twenty years from the acquisition date. The three specified growth premium areas are located in Pima County, Arizona where Red Rock has not yet begun operating, and where Red Rock is authorized to provide water utility services only. As of September 30, 2019, no meters have been installed and no accounts have been established in any of the three growth premium areas. The fair value of the acquisition liability was determined based on management's estimates and assumptions regarding the probability that connection growth will be achieved during the growth premium period. Any subsequent adjustments to the fair value estimate will be recorded to earnings. Refer to Note 11 — "Fair Value" of the notes to the unaudited condensed consolidated financial statements for additional information.

Final purchase price allocation of the net assets acquired in the transaction, reflecting additional information discussed above is as follows (in thousands):

Net assets acquired:		
Accounts receivable	$	111
Gross property, plant and equipment		19,841
Construction work-in-progress		748
Accumulated depreciation		(6,084)
Prepaids		12
Intangibles[1]		196
Accounts payable		(26)
Other taxes		(14)
Other accrued liabilities		(47)
Customer and meter deposits		(76)
AIAC		(3,423)
CIAC - Net		(7,397)
Acquisition liability		(838)
Total net assets assumed		3,003
Goodwill		2,848
Total purchase price	$	5,851

[1] Intangibles consist of franchise contract rights and organizational costs. Refer to Note 8 — "Goodwill & Intangible Assets" of the notes to the unaudited condensed consolidated financial statements for additional discussion.

The revenue and earnings recognized post acquisition and the pro forma effect of the business acquired are not material to the Company's financial position or results of operations.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As of September 30, 2019, the goodwill balance of $4.4 million related to the Turner and Red Rock acquisitions. There were no indicators of impairment identified as a result of the Company's review of events and circumstances related to its goodwill subsequent to the acquisitions. Based on our annual impairment testing performed on November 1st, no impairment was recorded. Refer to Note 7 — "Acquisitions" of the notes to the unaudited condensed consolidated financial statements for additional discussion.

Intangible Assets

As of September 30, 2019 and December 31, 2018, intangible assets consisted of the following (in thousands):

	September 30, 2019			December 31, 2018		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
INDEFINITE LIVED INTANGIBLE ASSETS:						
CP Water Certificate of Convenience & Necessity service area	$ 1,532	$ —	$ 1,532	$ 1,532	$ —	$ 1,532
Intangible trademark	13	—	13	13	—	13
Franchise contract rights	129	—	129	134	—	134
Organizational costs	67	—	67	66	—	66
	1,741	—	1,741	1,745	—	1,745
DEFINITE LIVED INTANGIBLE ASSETS:						
Acquired ICFAs	17,978	(12,568)	5,410	17,978	(12,154)	5,824
Sonoran contract rights	7,406	(2,003)	5,403	7,406	(2,003)	5,403
	25,384	(14,571)	10,813	25,384	(14,157)	11,227
Total intangible assets	$ 27,125	$ (14,571)	$ 12,554	$ 27,129	$ (14,157)	$ 12,972

A Certificate of Convenience & Necessity ("CC&N") is a permit issued by the ACC allowing a public service corporation to serve a specified area, and preventing other public service corporations from offering the same services within the specified area. The CP Water CC&N intangible asset was acquired through the acquisition of CP Water Company in 2006. CC&N permits are expected to be renewable indefinitely.

Franchise contract rights and organizational costs relate to our 2018 acquisition of Red Rock. Franchise contract rights are agreements with Pima and Pinal counties that allow the Company to place infrastructure in public right-of-way and permits expected to be renewable indefinitely. The organizational costs represent fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation and preparing it to conduct business.

Acquired ICFAs and contract rights related to our 2005 acquisition of Sonoran Utility Services, LLC assets are amortized when cash is received in proportion to the amount of total cash expected to be received under the underlying agreements. Due to the uncertainty of the timing of when cash will be received under ICFA agreements and contract rights, we cannot reliably estimate when the remaining intangible assets' amortization will be recorded. Amortization of $0.4 million was recorded for these balances for the three and nine months ended September 30, 2019. No amortization was recorded for three and nine months ended September 30, 2018.

9. TRANSACTIONS WITH RELATED PARTIES

The Company provides medical benefits to our employees through our participation in a pooled plan sponsored by an affiliate of a shareholder and director of the Company. Medical claims paid to the plan were approximately $0.1 million for both the three months ended September 30, 2019 and 2018. Medical claims paid to the plan were approximately $0.3 million for both the nine months ended September 30, 2019 and 2018.

As GWM was previously owned by the Company, it has historically provided billing, customer service, and other support services for the Company's regulated utilities pursuant to a services agreement with GWM whereby the Company has agreed to use the FATHOM™ platform for all of its regulated utility services through December 31, 2026. On November 17, 2016, the scope of services was expanded to include a meter replacement program of approximately $11.4 million, wherein the Company replaced a majority of its meter infrastructure. As of September 30, 2019, $11.4 million has been paid to GWM in connection with the meter exchange program. On September 10, 2019, the Company entered into an Amended and Restated Service Agreement with GWM to, among other things, (i) amend the scope of services to reflect upgrades and improvements to the FATHOM platform; (ii) add acquired utilities Red Rock and Eagletail as parties to the agreement; (iii) incorporate provisions to add newly acquired utilities to the FATHOM platform in the future; and (iv) update all terminology to better reflect services provided and use of non-software specific contractual deliverables.

Amounts collected by GWM from the Company's customers that GWM has not yet remitted to the Company are included within the "Due from affiliates" caption on the Company's consolidated balance sheet. As of September 30, 2019 and December 31, 2018, the unremitted balance totaled $0.5 million and $0.4 million, respectively. Based on current service connections, annual fees to be paid to GWM for FATHOM™ services in 2019 are expected to be approximately $1.7 million at a rate of $6.43 per water account/month, which is subject to annual adjustments based on the terms of the agreement. For both the three months ended September 30, 2019 and 2018, the Company incurred FATHOM™ service fees of approximately $0.4 million. For the nine months ended September 30, 2019 and 2018, the Company incurred FATHOM™ service fees of approximately $1.3 million and $1.1 million, respectively.

The services agreement is automatically renewable for successive 10-year periods, unless notice of termination is given prior to any renewal period. The services agreement may be terminated by either party for default only and the termination of the services agreement will also result in the termination of the royalty payments (described below) payable to the Company. Pursuant to the purchase agreement for the sale of GWM, the Company is entitled to quarterly royalty payments based on a percentage of certain of GWM's recurring revenues for a 10-year period, up to a maximum of $15.0 million, of which $2.3 million has been received over the six year period ended September 30, 2019. The Company made the election to record these quarterly royalty payments prospectively in income as the amounts are earned. Royalties recorded within other income totaled approximately $0.1 million for both the three months ended September 30, 2019 and 2018, and $0.3 million for both the nine months ended September 30, 2019 and 2018.

10. ACCRUED EXPENSES

Accrued expenses at September 30, 2019 and December 31, 2018 consist of the following (in thousands):

	September 30, 2019	December 31, 2018
Deferred compensation	$ 1,710	$ 2,305
Property taxes	1,653	1,073
Meter replacement - related party	17	350
Interest	1,778	478
Dividend payable	514	512
Asset retirement obligation	555	555
Accrued Bonus	581	325
Other accrued liabilities	1,881	1,867
Total accrued expenses	$ 8,689	$ 7,465

11. FAIR VALUE

Fair Value of Financial Instruments

FASB ASC 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels, as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than Level 1 that are either directly or indirectly observable
- Level 3 - Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that the Company believes market participants would use.

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018 were as follows (in thousands):

	September 30, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset/Liability Type:								
HUF Funds - restricted cash(1)	$ —	$ 611	$ —	$ 611	$ —	$ 9	$ —	$ 9
Certificate of Deposit(2)(4)	—	—	—	—	3,000	—	—	3,000
Demand Deposit(2)	5,118	—	—	5,118	7,043	—	—	7,043
Certificate of Deposit - Restricted(1)	—	435	—	435	—	432	—	432
Long-term debt(3)	—	122,173	—	122,173	—	107,860	—	107,860
Acquisition Liability(5)	—	—	838	838	—	—	—	—
Total	$ 5,118	$123,219	$ 838	$129,175	$ 10,043	$108,301	$ —	$118,344

(1) HUF Funds - restricted cash and Certificate of Deposit - Restricted are presented on the Restricted cash line item of the Company's consolidated balance sheets. They are valued at amortized cost, which approximates fair value.

(2) Certificate of Deposit and Demand Deposit are presented on the Cash and cash equivalents line item of the Company's consolidated balance sheets. They are valued at amortized cost, which approximates fair value. The Certificate of Deposit has no withdrawal restrictions or penalties.

(3) The fair value of our debt was estimated based on interest rates considered available for instruments of similar terms and remaining maturities.

(4) The term of the Certificate of Deposit expired during the three months ended September 30, 2019. The Company transferred the funds into a money market account which classifies as cash and cash equivalents; as such, no fair value assessment is required.

(5) As part of the Red Rock acquisition, the Company is required to pay to the seller a growth premium equal to $750 for each new account established within three specified growth premium areas, commencing in each area on the date of the first meter installation and ending on the earlier of ten years after such first installation date, or twenty years from the acquisition date. The fair value of the acquisition liability was calculated using a discounted cash flow technique which utilized unobservable inputs developed using the Company's estimates and assumptions. Significant inputs used in the fair value calculation are as follows: year of the first meter installation, total new accounts per year, years to complete full build out, and discount rate.

12. DEBT

The outstanding balances and maturity dates for short-term (including the current portion of long-term debt) and long-term debt as of September 30, 2019 and December 31, 2018 are as follows (in thousands):

	September 30, 2019		December 31, 2018	
	Short-term	Long-term	Short-term	Long-term
BONDS AND NOTES PAYABLE -				
4.38% Series A 2016, maturing June 2028	$ —	$ 28,750	$ —	$ 28,750
4.58% Series B 2016, maturing June 2036	—	86,250	—	86,250
1.20% WIFA Loan, maturing October 2032	—	—	3	39
4.65% Harquahala Loan, maturing January 2021	6	4	5	9
4.60% WIFA Loan, maturing March 2037	1	15	1	12
	7	115,019	9	115,060
OTHER				
Capital lease obligations	80	189	38	96
Debt issuance costs	—	(615)	—	(649)
Total debt	$ 87	$ 114,593	$ 47	$ 114,507

2016 Senior Secured Notes

On June 24, 2016, the Company issued two series of senior secured notes with an aggregate total principal balance of $115.0 million at a blended interest rate of 4.55%. Series A carries a principal balance of $28.8 million and bears an interest rate of 4.38% over a twelve-year term, with the principal payment due on June 15, 2028. Series B carries a principal balance of $86.3 million and bears an interest rate of 4.58% over a 20-year term. Series B is interest only for the first five years, with $1.9 million principal payments paid semiannually thereafter. The proceeds of the senior secured notes were primarily used to refinance the previously outstanding long-term tax exempt bonds, which were subject to an early redemption option at 103%, plus accrued interest, as a result of our initial public offering in the United States. As part of the refinancing of the long-term debt, the Company paid a prepayment penalty of $3.2 million and wrote off the remaining $2.2 million in capitalized loan fees related to the tax exempt bonds, which were recorded as additional interest expense in the second quarter of 2016. The senior secured notes are collateralized by a security interest in the Company's equity interest in its subsidiaries, including all payments representing profits and qualifying distributions. Debt issuance costs as of both September 30, 2019 and December 31, 2018 were $0.6 million.

The senior secured notes require the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. Consolidated EBITDA is calculated as net income plus depreciation and amortization, taxes, interest and other non-cash charges net of non-cash income. Consolidated debt service is calculated as interest expense, principal payments, and dividend or stock repurchases. The senior secured notes also contain a provision limiting the payment of dividends if the Company falls below a debt service ratio of 1.25. However, for the quarter ending June 30, 2021 through the quarter ending March 31, 2024, the ratio drops to 1.20. As of September 30, 2019, the Company was in compliance with its financial debt covenants.

Eagletail Loans

In May 2017, the Company acquired Eagletail Water Company ("Eagletail"). As part of the acquisition, the Company assumed two unsecured loans held by Eagletail. These loans are payable to the Water Infrastructure Finance Authority of Arizona ("WIFA") and Harquahala Valley Community Benefits Foundation ("Harquahala"). The WIFA loan bears an interest rate of 1.20% over a 20-year term, while the Harquahala loan bears an interest rate of 4.65% over a 15-year term. The Company paid off the WIFA loan in March 2019.

In 2017, the Company entered into a second loan payable to WIFA ("2017 WIFA"), and no borrowings were made until 2018. The 2017 WIFA loan bears an interest rate of 4.60% over a 20-year term. The original loan amount was approximately $175,000, of which approximately $157,000 was forgiven.

Revolving Credit Line

On April 20, 2018, the Company entered into an agreement with MidFirst Bank, a federally chartered savings association, for a two-year revolving line of credit up to $8.0 million, set to expire on April 30, 2020. The credit facility bears an interest rate of LIBOR plus 2.25%. As of September 30, 2019, the Company had no outstanding borrowings under this credit line. There were $72,000 unamortized debt issuance costs as of September 30, 2019 and $137,000 as of December 31, 2018. In April 2019, the Company signed an amendment which extends the maturity of the line of credit to April 30, 2022 and modifies the debt service coverage ratio to match the ratio required by the senior secured notes discussed above; all other terms remain unchanged. As of September 30, 2019, we had no outstanding borrowings under this credit line.

The revolving credit line requires the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. The revolving credit line also contains a provision limiting the payment of dividends if the Company falls below a debt service ratio of 1.25. As of September 30, 2019, the Company was in compliance with its financial debt covenant.

At September 30, 2019, the remaining aggregate annual maturities of debt and minimum lease payments under capital lease obligations for the years ended December 31 are as follows (in thousands):

	Debt	Capital Lease Obligations
Remaining three months of 2019	$ 1	$ 20
2020	7	81
2021	1,920	87
2022	3,834	59
2023	3,834	22
Thereafter	105,430	—
Subtotal	115,026	269
Less: amount representing interest	—	(27)
Total	$ 115,026	$ 242

13. INCOME TAXES

During the three months ended September 30, 2019, the Company recorded a tax expense of $0.4 million on pre-tax income of $1.4 million, compared to a tax expense of $0.2 million on pre-tax income of $0.9 million for the three months ended September 30, 2018. During the nine months ended September 30, 2019, the Company recorded a tax expense of $1.1 million on pre-tax income of $3.6 million, compared to a tax expense of $1.1 million on pre-tax income of $4.3 million for the nine months ended September 30, 2018. The income tax provision was computed based on the Company's estimated effective tax rate and forecasted income expected for the full year, including the impact of any unusual, infrequent, or non-recurring items. Refer to Note 1 — "Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements" for further details.

14. DEFERRED COMPENSATION AWARDS

Stock-based compensation

Stock-based compensation related to option awards is measured based on the fair value of the award. The fair value of stock option awards is determined using a Black-Scholes option-pricing model. We recognize compensation expense associated with the options over the vesting period.

2016 stock option grant

No stock-based compensation expense was recorded for the three months ended September 30, 2019 and September 30, 2018. No stock-based compensation was recorded for the nine months ended September 30, 2019 and $68,000 was recorded for the nine months ended September 30, 2018. As of September 30, 2019, 325,000 options have been exercised with none outstanding. Of the 325,000 options exercised, 125,000 shares were exercised utilizing a cashless exercise, which resulted in an increase in shares outstanding of 27,364 as well as 97,636 shares recorded to treasury stock. This resulted in non-cash financing activities of $0.4 million and $0.2 million, respectively, for the nine months ended September 30, 2019 and 2018.

2017 stock option grant

Stock-based compensation expense of $67,000 was recorded for both the three months ended September 30, 2019 and 2018, and $198,000 and $188,000 was recorded for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, 8,204 options have been exercised and 66,000 options have been forfeited with 390,796 outstanding.

2019 stock option grant

In August 2019, GWRI's Board of directors granted stock options to acquire 250,000 shares of GWRI's common stock to employees throughout the Company. The options were granted with an exercise price of $11.26, the market price of the Company's common shares on the NASDAQ Global Market at the close of business on August 13, 2019. The options vest over a four-year period, with 25% vesting in August 2020, 25% vesting in August 2021, 25% vesting in August 2022, and 25% vesting in August 2023. The options have a ten-year life. The Company will expense the $0.8 million fair value of the stock option grant ratably over the four-year vesting period. Stock-based compensation expense of $26,000 was recorded for the three and nine months ended September 30, 2019. No stock-based compensation was recorded for the three and nine months ended September 30, 2018. As of September 30, 2019, 250,000 options are outstanding.

Phantom stock compensation

The following table details total awards granted and the number of units outstanding as of September 30, 2019 along with the amounts paid to holders of the phantom stock units ("PSUs") for the three and nine months ended September 30, 2019 and 2018 (in thousands, except unit amounts):

			Amounts Paid For the Three Months Ended September 30,		Amounts Paid For the Nine Months Ended September 30,	
Grant Date	Units Granted	Units Outstanding	2019	2018	2019	2018
Q1 2015	28,828	—	—	—	—	22
Q1 2016	34,830	—	—	30	29	83
Q1 2017	22,712	3,785	19	20	57	54
Q1 2018	30,907	15,454	26	27	78	50
Q1 2019	32,190	26,825	27	—	54	—
Total	149,467	46,064	$ 72	$ 77	$ 218	$ 209

Stock appreciation rights compensation

The following table details the recipients of the stock appreciation rights (“SARs”) awards, the grant date, units granted, exercise price, outstanding units as of September 30, 2019 and amounts paid during the three and nine months ended September 30, 2019 and 2018 (in thousands, except unit and per unit amounts):

					Amounts Paid For the Three Months Ended September 30,		Amounts Paid For the Nine Months Ended September 30,	
Recipients	Grant Date	Units Granted	Exercise Price	Units Outstanding	2019	2018	2019	2018
Key Executive (1)(3)	Q3 2013	100,000	$ 1.59	—	$ —	$ —	$ —	$ 166
Key Executive (1)(4)	Q4 2013	100,000	$ 2.69	—	—	—	—	183
Members of Management (1)(5)	Q1 2015	299,000	$ 4.26	118,000	481	—	481	—
Key Executives (2)(6)	Q2 2015	300,000	$ 5.13	85,000	258	415	705	415
Members of Management (1)(7)	Q3 2017	103,000	$ 9.40	63,000	125	—	125	—
Members of Management (1)(8)	Q1 2018	33,000	$ 8.99	24,750	27	—	27	—
Total		935,000		290,750	$ 891	$ 415	$ 1,338	$ 764

(1) The SARs vest ratably over sixteen quarters from the grant date.
(2) The SARs vest over sixteen quarters, vesting 20% per year for the first three years, with the remainder, 40%, vesting in year four.
(3) The exercise price was determined by taking the weighted average GWR Global Water Resources Corp. ("GWRC") share price of the five days prior to the grant date of July 1, 2013.
(4) The exercise price was determined by taking the weighted average GWRC share price of the 30 days prior to the grant date of November 14, 2013.
(5) The exercise price was determined to be the fair market value of one share of GWRC stock on the grant date of February 11, 2015.
(6) The exercise price was determined to be the fair market value of one share of GWRC stock on the grant date of May 8, 2015.
(7) The exercise price was determined to be the fair market value of one share of GWRI stock on the grant date of August 10, 2017.
(8) The exercise price was determined to be the fair market value of one share of GWRI stock on the grant date of March 12, 2018.

For the three months ended September 30, 2019 and 2018, the Company recorded approximately $0.6 million and $0.7 million of compensation expense related to the PSUs and SARs, respectively. For the nine months ended September 30, 2019 and 2018, the Company recorded approximately $1.0 million and $1.1 million of compensation expense related to the PSUs and SARs, respectively. Based on GWRI’s closing share price on September 30, 2019 (the last trading date of the quarter), deferred compensation expense to be recognized over future periods is estimated for the years ending December 31 as follows (in thousands):

	PSUs	SARs
Remaining three months of 2019	$ 172	$ 46
2020	253	91
2021	129	91
2022	—	36
2023	—	—
Total	$ 554	$ 264

15. SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the nine months ended September 30, 2019 and 2018 (in thousands):

	For the Nine Months Ended September 30,	
	2019	2018
Supplemental cash flow information:		
Cash paid for interest	$ 2,621	$ 2,613
Non-cash financing and investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	$ 964	$ 596
Contributions in aid of construction - loan forgiveness	$ 31	$ —

16. COMMITMENTS AND CONTINGENCIES

Commitments

In September 2018, the Company amended the corporate office lease agreement to include the rental of additional office space for the period of September 1, 2018 through February 28, 2019. In January 2019, the lease agreement was amended to extend the term of the lease, with a commencement date of March 1, 2019 and termination date of May 31, 2022. As such, the Company's monthly rent expense increased to approximately $15,000. Rent expense arising from the operating leases totaled approximately $45,000 and $31,000 for the three months ended September 30, 2019 and 2018, respectively, and $133,000 and $80,000 for the nine months ended September 30, 2019 and 2018, respectively.

Contingencies

From time to time, in the ordinary course of business, the Company may be subject to pending or threatened lawsuits in which claims for monetary damages are asserted. Management is not aware of any legal proceeding of which the ultimate resolution could materially affect our financial position, results of operations, or cash flows.

17. SUBSEQUENT EVENTS

Dividend Increase

On November 6, 2019, the Company announced a monthly dividend increase from $0.023861 per share ($0.286332 per share annually) to $0.0241 per share ($0.2892 per share annually). Although we expect monthly dividends will be declared and paid for in the foreseeable future, the declaration of any dividends is at the discretion of our board of directors and is subject to our compliance with applicable law, and depending on, among other things, results of operation, financial condition, level of indebtedness, capital requirements, contractual restrictions, restrictions in our debt agreements and in any preferred stock we may issue in the future, business prospects, and other factors that our board of directors may deem relevant.