

SJW CORP  
Form 10-Q  
November 02, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2011  
Commission file number 1-8966  
SJW Corp.  
(Exact name of registrant as specified in its charter)

California 77-0066628  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

110 West Taylor Street, San Jose, CA 95110  
(Address of principal executive offices) (Zip Code)  
408-279-7800

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 20, 2011, there were 18,592,391 shares of the registrant's Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

SJW Corp. and Subsidiaries  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME  
(UNAUDITED)  
(in thousands, except share and per share data)

|  | THREE MONTHS ENDED<br>SEPTEMBER 30, |            | NINE MONTHS ENDED<br>SEPTEMBER 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2011                                | 2010       | 2011                               | 2010       |
| OPERATING REVENUE                                      | \$73,914                            | 70,347     | \$176,617                          | 164,886    |
| OPERATING EXPENSE:                                     |                                     |            |                                    |            |
| Production Costs:                                      |                                     |            |                                    |            |
| Purchased water  | 19,182                              | 16,574     | 39,279                             | 33,728     |
| Power  | 1,979                               | 2,122      | 4,366                              | 4,850      |
| Groundwater extraction charges                         | 7,824                               | 8,736      | 17,632                             | 19,969     |
| Other production costs                                 | 3,030                               | 2,726      | 8,442                              | 7,832      |
| Total production costs                                 | 32,015                              | 30,158     | 69,719                             | 66,379     |
| Administrative and general                             | 9,882                               | 10,234     | 29,176                             | 27,861     |
| Maintenance  | 3,331                               | 2,895      | 9,855                              | 8,960      |
| Property taxes and other non-income taxes              | 2,397                               | 2,056      | 6,607                              | 5,819      |
| Depreciation and amortization                          | 7,803                               | 7,082      | 23,389                             | 21,263     |
| Total operating expense                                | 55,428                              | 52,425     | 138,746                            | 130,282    |
| OPERATING INCOME                                       | 18,486                              | 17,922     | 37,871                             | 34,604     |
| OTHER (EXPENSE) INCOME:                                |                                     |            |                                    |            |
| Interest on long-term debt                             | (4,684                              | ) (4,166   | ) (13,175                          | ) (11,424  |
| Mortgage and other interest expense                    | (436                                | ) (486     | ) (1,358                           | ) (1,555   |
| Gain on sale of California Water Service Group stock   | —                                   | 4,466      | —                                  | 4,466      |
| Dividend income  | 59                                  | 239        | 179                                | 893        |
| Other, net   | 150                                 | 145        | 369                                | 420        |
| Income before income taxes                             | 13,575                              | 18,120     | 23,886                             | 27,404     |
| Provision for income taxes                             | 5,360                               | 7,333      | 9,610                              | 11,116     |
| NET INCOME   | 8,215                               | 10,787     | 14,276                             | 16,288     |
| Other comprehensive loss:                              |                                     |            |                                    |            |
| Unrealized loss on investment                          | (385                                | ) (3,188   | ) (356                             | ) (4,420   |
| Less: income taxes related to other comprehensive loss | 158                                 | 1,307      | 146                                | 1,812      |
| Other comprehensive loss, net                          | (227                                | ) (1,881   | ) (210                             | ) (2,608   |
| COMPREHENSIVE INCOME                                   | \$7,988                             | 8,906      | \$14,066                           | 13,680     |
| EARNINGS PER SHARE                                     |                                     |            |                                    |            |
| Basic  | \$0.44                              | 0.58       | 0.77                               | 0.88       |
| Diluted  | \$0.44                              | 0.58       | 0.76                               | 0.87       |
| DIVIDENDS PER SHARE                                    | \$0.17                              | 0.17       | 0.52                               | 0.51       |
| WEIGHTED AVERAGE SHARES OUTSTANDING                    |                                     |            |                                    |            |
| Basic  | 18,586,887                          | 18,536,802 | 18,578,146                         | 18,528,176 |
| Diluted  | 18,802,606                          | 18,751,921 | 18,787,623                         | 18,738,089 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



SJW Corp. and Subsidiaries  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (UNAUDITED)  
 (in thousands, except share and per share data)

|  | SEPTEMBER 30,<br>2011 | DECEMBER 31,<br>2010 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Utility plant:   |                       |                      |
| Land   | \$ 8,579              | 8,579                |
| Depreciable plant and equipment                                      | 1,038,753             | 1,004,689            |
| Construction in progress   | 24,684                | 10,103               |
| Intangible assets  | 14,730                | 13,538               |
|  | 1,086,746             | 1,036,909            |
| Less accumulated depreciation and amortization                       | 345,235               | 322,102              |
|  | 741,511               | 714,807              |
| Real estate investment   | 89,108                | 88,943               |
| Less accumulated depreciation and amortization                       | 10,122                | 8,854                |
|  | 78,986                | 80,089               |
| <b>CURRENT ASSETS:</b>   |                       |                      |
| Cash and cash equivalents  | 43,069                | 1,730                |
| Accounts receivable:   |                       |                      |
| Customers, net of allowances for uncollectible accounts              | 16,921                | 12,491               |
| Income tax   | 4,114                 | 7,634                |
| Other  | 1,194                 | 993                  |
| Accrued unbilled utility revenue                                     | 20,842                | 12,717               |
| Materials and supplies   | 989                   | 989                  |
| Prepaid expenses   | 2,066                 | 1,473                |
|  | 89,195                | 38,027               |
| <b>OTHER ASSETS:</b>   |                       |                      |
| Investment in California Water Service Group                         | 6,820                 | 7,177                |
| Debt issuance costs and broker fees, net of accumulated amortization | 4,952                 | 4,308                |
| Regulatory assets, net   | 87,721                | 87,721               |
| Other  | 4,058                 | 3,233                |
|  | 103,551               | 102,439              |
|  | \$ 1,013,243          | 935,362              |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (UNAUDITED)  
 (in thousands, except share and per share data)

|   | SEPTEMBER 30,<br>2011 | DECEMBER 31,<br>2010 |
|---|-----------------------|----------------------|
| <b>CAPITALIZATION AND LIABILITIES</b>   |                       |                      |
| <b>CAPITALIZATION:</b>  |                       |                      |
| Shareholders' equity:   |                       |                      |
| Common stock, \$0.521 par value; authorized 36,000,000 shares; issued and outstanding 18,591,629 shares on September 30, 2011 and 18,551,540 on December 31, 2010 | \$9,683               | 9,662                |
| Additional paid-in capital  | 24,404                | 23,443               |
| Retained earnings   | 224,132               | 219,568              |
| Accumulated other comprehensive income  | 2,149                 | 2,359                |
| Total shareholders' equity  | 260,368               | 255,032              |
| Long-term debt, less current portion  | 344,502               | 295,704              |
|   | 604,870               | 550,736              |
| <b>CURRENT LIABILITIES:</b>   |                       |                      |
| Line of credit  | 5,500                 | 4,000                |
| Current portion of long-term debt   | 1,154                 | 1,133                |
| Accrued groundwater extraction charges and purchased water  | 8,918                 | 4,359                |
| Purchased power   | 670                   | 495                  |
| Accounts payable  | 6,687                 | 5,487                |
| Accrued interest  | 5,440                 | 5,244                |
| Accrued property taxes and other non-income taxes   | 2,533                 | 1,288                |
| Accrued payroll   | 3,370                 | 2,720                |
| Other current liabilities   | 4,421                 | 4,429                |
|   | 38,693                | 29,155               |
| DEFERRED INCOME TAXES   | 117,843               | 106,406              |
| UNAMORTIZED INVESTMENT TAX CREDITS  | 1,510                 | 1,555                |
| ADVANCES FOR CONSTRUCTION   | 67,499                | 68,352               |
| CONTRIBUTIONS IN AID OF CONSTRUCTION  | 123,051               | 121,803              |
| DEFERRED REVENUE  | 1,076                 | 1,100                |
| POSTRETIREMENT BENEFIT PLANS  | 52,634                | 50,213               |
| OTHER NONCURRENT LIABILITIES  | 6,067                 | 6,042                |
| COMMITMENTS AND CONTINGENCIES   | —                     | —                    |
|   | \$1,013,243           | 935,362              |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)  
 (in thousands)

|   | NINE MONTHS ENDED<br>SEPTEMBER 30, |                 |
|---|------------------------------------|-----------------|
|   | 2011                               | 2010            |
| <b>OPERATING ACTIVITIES:</b>  |                                    |                 |
| Net income  | \$14,276                           | 16,288          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                 |
| Depreciation and amortization   | 23,389                             | 21,263          |
| Deferred income taxes   | 11,421                             | 931             |
| Share-based compensation  | 513                                | 632             |
| Loss on sale of utility property  | 23                                 | —               |
| Gain on sale of California Water Service Group investment                         | —                                  | (4,466)         |
| Changes in operating assets and liabilities:                                      |                                    |                 |
| Accounts receivable and accrued unbilled utility revenue                          | (12,756)                           | (12,200)        |
| Accounts payable, purchased power and other current liabilities                   | 28                                 | 415             |
| Accrued groundwater extraction charges and purchased water                        | 4,559                              | 3,727           |
| Accrued taxes   | 4,809                              | 2,625           |
| Accrued interest  | 196                                | (191)           |
| Accrued payroll   | 650                                | 671             |
| Postretirement benefits   | 2,421                              | 2,734           |
| Other changes, net  | (512)                              | 743             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>49,017</b>                      | <b>33,172</b>   |
| <b>INVESTING ACTIVITIES:</b>  |                                    |                 |
| Additions to utility plant:   |                                    |                 |
| Company funded  | (43,346)                           | (70,448)        |
| Contributions in aid of construction  | (5,281)                            | (2,884)         |
| Additions to real estate investment   | (165)                              | (3,286)         |
| Payments for business acquisition and water rights                                | (2,065)                            | (2,892)         |
| Cost to retire utility plant, net of salvage                                      | (1,702)                            | (327)           |
| Proceeds from sale of utility property  | 43                                 | —               |
| Proceeds from sale of California Water Service Group investment                   | —                                  | 8,147           |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(52,516)</b>                    | <b>(71,690)</b> |
| <b>FINANCING ACTIVITIES:</b>  |                                    |                 |
| Borrowings from line of credit  | 17,600                             | 49,300          |
| Repayments of line of credit  | (16,100)                           | (51,600)        |
| Long-term borrowings  | 50,000                             | 49,852          |
| Repayments of long-term borrowings  | (925)                              | (577)           |
| Debt issuance costs   | (87)                               | (852)           |
| Dividends paid  | (9,616)                            | (9,451)         |
| Exercise of stock options and similar instruments                                 | 547                                | 544             |
| Tax benefits realized from share options exercised                                | 7                                  | 4               |
| Receipts of advances and contributions in aid of construction                     | 5,043                              | 4,830           |
| Refund of advances for construction   | (1,631)                            | (1,613)         |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                  | <b>44,838</b>                      | <b>40,437</b>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                    | <b>41,339</b>                      | <b>1,919</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                             | <b>1,730</b>                       | <b>1,416</b>    |

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|  |          |         |
|--|----------|---------|
| CASH AND CASH EQUIVALENTS, END OF PERIOD   | \$43,069 | 3,335   |
| Cash paid (received) during the period for:                                      |          |         |
| Interest   | \$14,812 | 13,686  |
| Income taxes   | (5,269   | ) 8,093 |
| Supplemental disclosure of non-cash activities:                                  |          |         |
| Change in accrued payables   | 1,518    | 15,424  |
| Utility property installed by developers   | —        | 117     |
| Loan proceeds held as restricted cash  | —        | 148     |
| See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements. |          |         |

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(in thousands, except share and per share data)

Note 1. General

In the opinion of SJW Corp., the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for the fair presentation of the results for the interim periods. These adjustments consist only of normal recurring adjustments.

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in accordance with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). The Notes to Consolidated Financial Statements in SJW Corp.'s 2010 Annual Report on Form 10-K should be read with the accompanying unaudited condensed consolidated financial statements.

Water sales are seasonal in nature and influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater, and lower in the winter months when cooler temperatures and increased rainfall curtail water usage and sales.

Basic earnings per share is calculated using income available to common shareholders, divided by the weighted average number of shares outstanding during the period. The two-class method in computing basic earnings per share is not used because the number of participating securities as defined in Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 260 - "Earning Per Share" is not significant. (The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security.) Diluted earnings per share is calculated using income available to common shareholders divided by the weighted average number of shares of common stock including both shares outstanding and shares potentially issuable in connection with stock options, deferred restricted common stock awards under SJW Corp.'s Long-Term Incentive Plan (as amended, the "Incentive Plan") and shares potentially issuable under the Employee Stock Purchase Plan ("ESPP"). For the three months ended September 30, 2011 and 2010, 815 and 571 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively. For the nine months ended September 30, 2011 and 2010, 3,125 and 3,004 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively.

The Company reclassified \$2,726 and \$7,832 of costs incurred to support the delivery of water from other operating expense to production costs and \$2,067 and \$5,952 from other operating expense to administrative and general related to customer service costs for the three- and nine-month periods ended September 30, 2010, respectively. In addition, the Company reclassified income taxes out of operating expense to conform to the current year presentation. These reclassifications impacted total production costs, total operating expense and operating income. The Company believes these reclassifications provide investors with better operating information and are in line with current practices of other water companies and California Public Utilities Commission ("CPUC") guidance.

Note 2. Equity Plans

SJW Corp. accounts for share-based compensation based on the grant date fair value of the awards issued to employees in accordance with FASB ASC Topic 718 - "Compensation - Stock Compensation," which requires the measurement and recognition of compensation expense based on the estimated fair value for all share-based payment awards.

The Incentive Plan allows SJW Corp. to provide employees, non-employee board members or the board of directors of any parent or subsidiary, consultants, and other independent advisors who provide services to the company or any parent or subsidiary the opportunity to acquire an equity interest in SJW Corp. The types of awards included in the Incentive Plan are restricted stock awards, restricted stock units, performance shares, or other share-based awards. In



addition, shares are issued to employees under an ESPP. SJW Corp. also has a Dividend Reinvestment and Stock Purchase Plan ("DRSPP") which allows eligible participants to buy shares and reinvest cash dividends in SJW Corp. common stock. As of September 30, 2011, the remaining shares available for issuance under the Incentive Plan were 1,200,827, and 364,459 shares are issuable upon the exercise of outstanding options, restricted stock units, and deferred restricted stock units under the Incentive Plan.

## SJW CORP. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2011

(in thousands, except share and per share data)

The compensation costs charged to income is recognized on a straight-line basis over the requisite service period. A summary of compensation costs charged to income, proceeds from the exercise of stock options and similar instruments, and the tax benefit realized from stock options and similar instruments exercised, that are recorded to additional paid-in capital and common stock, by award type, are presented below for the three and nine months ended September 30, 2011 and 2010.

|  | THREE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2011 |     | NINE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2010 |     |
|--|--|-----|---|-----|
| Compensation costs charged to income:  |  |     |   |     |
| ESPP   | \$47   | 44  | \$92  | 90  |
| Restricted stock and deferred restricted stock                                     | 138  | 165 | 421   | 542 |
| Total compensation costs charged to income   | \$185  | 209 | \$513   | 632 |
| Excess tax benefits realized from share options exercised and stock issuance:      |  |     |   |     |
| Stock options  | \$—  | —   | \$—   | 4   |
| Restricted stock and deferred restricted stock                                     | —  | —   | 7   | —   |
| Total excess tax benefits realized from share options exercised and stock issuance | \$—  | —   | \$7   | 4   |
| Proceeds from the exercise of stock options and similar instruments:               |  |     |   |     |
| Stock options  | \$—  | —   | \$—   | 32  |
| Dividend Reinvestment and Stock Purchase Plan                                      | 14   | —   | 22  | —   |
| ESPP   | 271  | 254 | 525   | 512 |
| Total proceeds from the exercise of stock options and similar instruments          | \$285  | 254 | \$547   | 544 |

## Stock Options

No options were granted during the three and nine months ended September 30, 2011 and 2010.

As of September 30, 2011, there were no unrecognized compensation costs related to stock options.

## Restricted Stock and Deferred Restricted Stock

On January 3, 2011, restricted stock units covering an aggregate of 13,631 shares of common stock of SJW Corp. were granted to several executives of SJW Corp. and its subsidiaries. The units vest in four equal successive installments upon completion of each year of service with no dividend equivalent rights. Share-based compensation expense is being recognized at grant date fair value of \$23.70 per unit over the vesting period beginning in 2011.

On January 25, 2011, market performance-vesting restricted stock units granted to a key executive of SJW Corp. on April 30, 2008 covering 7,000 shares of common stock of SJW Corp. were canceled because the market performance objective was not attained. However, since the requisite service over the three-year service period of the award was rendered, even though the market condition was not achieved, compensation cost over the three-year requisite service period was not reversed.

On April 25, 2011, a total of 149 shares of common stock were distributed to a retired member of SJW Corp.'s Board of Directors. There was no excess tax benefit realized from this stock issuance.

On June 30, 2011, an executive of SJW Corp. retired from the Company and as a result, a total of 4,725 unvested restricted shares were forfeited. Compensation costs of \$22 previously recognized relating to these unvested shares was reversed during the second quarter of 2011.

As of September 30, 2011, the total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to \$855. This cost is expected to be recognized over a weighted-average period of 1.56 years.

## Dividend Equivalent Rights

Under the Incentive Plan, certain holders of options, restricted stock, and deferred restricted stock awards may have the right to receive dividend equivalent rights (“DERs”) each time a dividend is paid on common stock after the grant date. Stock compensation on DERs is recognized as a liability and recorded against retained earnings on the date dividends are issued. For the three and nine months ended September 30, 2011, \$32 and \$96, respectively, related to DERs were recorded against retained earnings and were accrued as a liability. For the three and nine months ended September 30, 2010, \$31 and \$93, respectively, related to DERs were recorded against retained earnings and were accrued as a liability.

## SJW CORP. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2011

(in thousands, except share and per share data)

## Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of SJW Corp.'s common stock at 85% of the fair value of shares on the purchase date. Under the ESPP, employees can designate up to a maximum of 10% of their base compensation for the purchase of shares of common stock, subject to certain restrictions. A total of 270,400 shares of common stock have been reserved for issuance under the ESPP.

After considering estimated employee terminations or withdrawals from the plan before the purchase date, SJW Corp.'s recorded expenses were \$15 and \$55 for the three and nine months ended September 30, 2011, respectively, and \$14 and \$53 for the three and nine months ended September 30, 2010, respectively, related to the ESPP.

The total unrecognized compensation costs related to the semi-annual offering period that ends January 31, 2012 for the ESPP is approximately \$30. This cost is expected to be recognized during the fourth quarter of 2011 and first quarter of 2012.

## Dividend Reinvestment and Stock Purchase Plan

SJW Corp. adopted the DRSP effective April 19, 2011. The DRSP offers shareholders the ability to reinvest cash dividends in SJW Corp. common stock and also purchase additional shares of SJW Corp. common stock. A total of 3,000,000 shares of common stock have been reserved for issuance under the DRSP. For the three and nine months ended September 30, 2011, 613 and 962 shares have been issued under the DRSP, respectively.

## Note 3. Real Estate Investments

The major components of real estate investments as of September 30, 2011 and December 31, 2010 are as follows:

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| Land  | \$21,312              | 21,312               |
| Buildings and improvements                      | 67,496                | 67,281               |
| Intangibles                                     | 300                   | 350                  |
| Subtotal  | 89,108                | 88,943               |
| Less: accumulated depreciation and amortization | 10,122                | 8,854                |
| Total   | \$78,986              | 80,089               |

Depreciation and amortization is computed using the straight-line method over the estimated service lives of the assets, ranging from 5 to 39 years.

## Note 4. Employee Benefit Plans

The components of net periodic benefit costs for San Jose Water Company's pension plan, its Executive Supplemental Retirement Plan and other postretirement benefit plan for the three and nine months ended September 30, 2011 and 2010 are as follows:

|                           | THREE MONTHS ENDED |        | NINE MONTHS ENDED |          |
|---------------------------|--------------------|--------|-------------------|----------|
|                           | SEPTEMBER 30,      |        | SEPTEMBER 30,     |          |
|                           | 2011               | 2010   | 2011              | 2010     |
| Service cost              | \$947              | 1,048  | \$2,842           | 2,692    |
| Interest cost             | 1,445              | 1,483  | 4,335             | 4,290    |
| Other cost                | 738                | 808    | 2,210             | 2,231    |
| Expected return on assets | (1,105)            | ) (597 | ) (3,313          | ) (2,468 |
|                           | \$2,025            | 2,742  | \$6,074           | 6,745    |

## SJW CORP. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2011

(in thousands, except share and per share data)

The following tables summarize the fair values of plan assets by major categories as of September 30, 2011 and December 31, 2010:

|                           |                                | Fair Value Measurements at September 30, 2011 |  |  |  |
|---------------------------|--------------------------------|---|--|--|--|
| Asset Category            | Benchmark                      | Total   | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Cash and cash equivalents |                                | \$2,183                                       | \$2,183  | \$—  | \$—  |
| Actively Managed (a):     |                                |   |  |  |  |
| U.S. Small Cap Equity     | Russell 2000                   | 5,080   | 5,080  | —  | —  |
| U.S. Large Cap Equity     | Russell 1000 Growth            | 3,267   | 3,267  | —  | —  |
| Emerging Market Equity    | MSCI<br>Emerging Markets Net   | 3,135   | 3,135  | —  | —  |
| U.S. Small Mid Cap Equity | Russell 2500                   | 1,497   | 1,497  | —  | —  |
| Non-U.S. Large Cap Equity | MSCI EAFE Net                  | 3,685   | 3,685  | —  | —  |
| Passive Index Fund ETFs   |                                |   |  |  |  |
| (b):                      |                                |   |  |  |  |
| U.S. Large Cap Equity     | S&P 500/Russell 1000<br>Growth | 4,889   | 4,889  | —  | —  |
| U.S. Small Mid Cap Equity | Russell 2500                   | 499   | 499  | —  | —  |
| U.S. Small Cap Equity     | Russell 2000                   | 108   | 108  | —  | —  |
| U.S. Mid Cap Equity       | Russell Mid Cap                | 55  | 55   | —  | —  |
| Non-U.S. Large Cap Equity | MSCI EAFE Net                  | 3,914   | 3,914  | —  | —  |
| REIT                      | Nareit - Equity REITS          | 2,671   | —  | 2,671  | —  |
| Fixed Income (c)          | (c)                            | 27,227  | —  | 27,227   | —  |
| Total                     |                                | \$58,210                                      | \$28,312   | \$29,898   | \$—  |

The Plan has a current target allocation of 55% invested in a diversified array of equity securities to provide long-term capital appreciation and 45% invested in a diversified array of fixed income securities to provide preservation of capital plus generation of income.

(a) Actively managed portfolio of securities with the goal to exceed the stated benchmark performance.

(b) Open-ended fund of securities with the goal to track the stated benchmark performance.

Actively managed portfolio of fixed income securities with the goal to exceed the Barclays Capital Aggregate  
(c) Bond, Barclays Capital 1-3 Year Government/Credit, Citigroup World Government Bond Index, and Merrill Lynch High Yield Master II performance.

## SJW CORP. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2011

(in thousands, except share and per share data)

## Fair Value Measurements at December 31, 2010

| Asset Category            | Benchmark                      | Total    | Quoted   | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------|--------------------------------|----------|--|--|--|
|                           |                                |          | Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) |  |  |
| Cash and cash equivalents |                                | \$12,823 | \$12,823   | \$—  | \$—  |
| Actively Managed (a):     |                                |          |  |  |  |
| U.S. Small Cap Equity     | Russell 2000                   | 5,961    | 5,961  | —  | —  |
| U.S. Large Cap Equity     | Russell 1000 Growth            | 3,822    | 3,822  | —  | —  |
| Emerging Market Equity    | MSCI Emerging Markets<br>Net   | 62       | 62   | —  | —  |
| U.S. Small Mid Cap Equity | Russell 2500                   | 1,850    | 1,850  | —  | —  |
| Non-U.S. Large Cap Equity | MSCI EAFE Net                  | 101      | 101  | —  | —  |
| Passive Index Fund ETFs   |                                |          |  |  |  |
| (b):                      |                                |          |  |  |  |
| U.S. Large Cap Equity     | S&P 500/Russell 1000<br>Growth | 5,597    | 5,597  | —  | —  |
| U.S. Small Mid Cap Equity | Russell 2500                   | 625      | 625  | —  | —  |
| U.S. Small Cap Equity     | Russell 2000                   | 128      | 128  | —  | —  |
| U.S. Mid Cap Equity       | Russell Mid Cap                | 63       | 63   | —  | —  |
| Non-U.S. Large Cap Equity | MSCI EAFE Net                  | 4,617    | 4,617  | —  | —  |
| REIT                      | Nareit - Equity REITS          | 2,987    | —  | 2,987  | —  |
| Fixed Income (c)          | (c)                            | 22,118   | —  | 22,118   | —  |
| Total                     |                                | \$60,754 | \$35,649   | \$25,105   | \$—  |

The Plan has a current target allocation of 55% invested in a diversified array of equity securities to provide long-term capital appreciation and 45% invested in a diversified array of fixed income securities to provide preservation of capital plus generation of income.

(a) Actively managed portfolio of securities with the goal to exceed the stated benchmark performance.

(b) Open-ended fund of securities with the goal to track the stated benchmark performance.

(c) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays Capital Aggregate Bond, Barclays Capital 1-3 Year Government/Credit, and Merrill Lynch High Yield Master II performance.

In 2011, SJW Corp. expects to make minimum contributions of \$6,800 and \$569 to the pension plan and other postretirement benefit plan, respectively, in order to be in compliance with the 80% funding rules under Internal Revenue Service regulations under the Pension Protection Act. For the three and nine months ended September 30, 2011, \$1,223 and \$3,328, respectively, has been contributed to the pension plan and other postretirement benefit plan.

## Note 5. Segment and Nonregulated Business Reporting

SJW Corp. is a holding company with four subsidiaries: (i) San Jose Water Company, a water utility operation with both regulated and nonregulated businesses, (ii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., operate commercial building rentals, (iii) SJWTX, Inc. which is doing business as Canyon Lake Water Service Company, a regulated water utility located in Canyon Lake, Texas, and its consolidated nonregulated variable interest entity, Acequia Water Supply Corporation, and (iv) Texas Water Alliance Limited, a

nonregulated water utility operation which is undertaking activities that are necessary to develop a water supply project in Texas. In accordance with FASB ASC Topic 280 – “Segment Reporting,” SJW Corp. has determined that it has two reportable business segments. The first segment is that of providing water utility and utility-related services to its customers through SJW Corp.’s subsidiaries, San Jose Water Company, Canyon Lake Water Service Company, and Texas Water Alliance Limited, together referred to as “Water Utility Services.” The second segment is property management and investment activity conducted by SJW Land Company, referred to as “Real Estate Services.” SJW Corp.’s reportable segments have been determined based on information used by the chief operating decision maker. SJW Corp.’s chief operating decision maker is its President and Chief Executive Officer (“CEO”). The CEO reviews financial information presented on a consolidated basis that is accompanied by disaggregated information about operating revenue, net income and total assets, by subsidiaries.

## SJW CORP. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2011

(in thousands, except share and per share data)

The tables below set forth information relating to SJW Corp.'s reportable segments and distribution of regulated and nonregulated business activities within the reportable segments. Certain allocated assets, revenue and expenses have been included in the reportable segment amounts. Other business activity of SJW Corp. not included in the reportable segments is included in the "All Other" category.

## For Three Months Ended September 30, 2011

|  | Water Utility Services |               | Real Estate Services | All Other*    | SJW Corp. |               | Total     |
|--|------------------------|---------------|----------------------|---------------|-----------|---------------|-----------|
|  | Regulated              | Non regulated | Non regulated        | Non regulated | Regulated | Non regulated |           |
| Operating revenue                                | \$71,013               | 1,704         | 1,197                | —             | 71,013    | 2,901         | 73,914    |
| Operating expense                                | 52,898                 | 1,145         | 844                  | 541           | 52,898    | 2,530         | 55,428    |
| Operating income (loss)                          | 18,115                 | 559           | 353                  | (541)         | 18,115    | 371           | 18,486    |
| Net income (loss)                                | 8,509                  | 312           | (80)                 | (526)         | 8,509     | (294)         | 8,215     |
| Depreciation and amortization                    | 7,284                  | 92            | 427                  | —             | 7,284     | 519           | 7,803     |
| Senior note, mortgage and other interest expense | 4,159                  | —             | 423                  | 538           | 4,159     | 961           | 5,120     |
| Income tax expense (benefit) in net income       | 5,582                  | 227           | (63)                 | (386)         | 5,582     | (222)         | 5,360     |
| Assets   | \$885,053              | 11,561        | 80,895               | 35,734        | 885,053   | 128,190       | 1,013,243 |

## For Three Months Ended September 30, 2010

|  | Water Utility Services |               | Real Estate Services | All Other*    | SJW Corp. |               | Total   |
|--|------------------------|---------------|----------------------|---------------|-----------|---------------|---------|
|  | Regulated              | Non regulated | Non regulated        | Non regulated | Regulated | Non regulated |         |
| Operating revenue                                | \$67,928               | 1,575         | 844                  | —             | 67,928    | 2,419         | 70,347  |
| Operating expense                                | 49,956                 | 1,010         | 892                  | 567           | 49,956    | 2,469         | 52,425  |
| Operating income (loss)                          | 17,972                 | 565           | (48)                 | (567)         | 17,972    | (50)          | 17,922  |
| Net income (loss)                                | 8,501                  | 317           | (342)                | 2,311         | 8,501     | 2,286         | 10,787  |
| Depreciation and amortization                    | 6,576                  | 87            | 419                  | —             | 6,576     | 506           | 7,082   |
| Senior note, mortgage and other interest expense | 4,206                  | —             | 440                  | 6             | 4,206     | 446           | 4,652   |
| Income tax expense (benefit) in net income       | 5,737                  | 225           | (234)                | 1,605         | 5,737     | 1,596         | 7,333   |
| Assets   | \$827,850              | 9,462         | 83,545               | 34,535        | 827,850   | 127,542       | 955,392 |

## For Nine Months Ended September 30, 2011

|                         | Water Utility Services |               | Real Estate Services | All Other*    | SJW Corp. |               | Total   |
|-------------------------|------------------------|---------------|----------------------|---------------|-----------|---------------|---------|
|                         | Regulated              | Non regulated | Non regulated        | Non regulated | Regulated | Non regulated |         |
| Operating revenue       | \$169,355              | 3,879         | 3,383                | —             | 169,355   | 7,262         | 176,617 |
| Operating expense       | 132,044                | 2,650         | 2,493                | 1,559         | 132,044   | 6,702         | 138,746 |
| Operating income (loss) | 37,311                 | 1,229         | 890                  | (1,559)       | 37,311    | 560           | 37,871  |



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|  |           |        |        |        |         |         |           |
|--|-----------|--------|--------|--------|---------|---------|-----------|
| Net income (loss)                                | 14,918    | 662    | (347 ) | (957 ) | 14,918  | (642 )  | 14,276    |
| Depreciation and amortization                    | 21,854    | 269    | 1,266  | —      | 21,854  | 1,535   | 23,389    |
| Senior note, mortgage and other interest expense | 12,660    | —      | 1,315  | 558    | 12,660  | 1,873   | 14,533    |
| Income tax expense (benefit) in net income       | 10,105    | 486    | (249 ) | (732 ) | 10,105  | (495 )  | 9,610     |
| Assets   | \$885,053 | 11,561 | 80,895 | 35,734 | 885,053 | 128,190 | 1,013,243 |

## SJW CORP. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2011

(in thousands, except share and per share data)

|  | For Nine Months Ended September 30, 2010 |               |                      |               |           |               |         |
|--|--|---------------|----------------------|---------------|-----------|---------------|---------|
|  | Water Utility Services                   |               | Real Estate Services | All Other*    | SJW Corp. |               | Total   |
|  | Regulated                                | Non regulated | Non regulated        | Non regulated | Regulated | Non regulated |         |
| Operating revenue                                | \$ 158,860                               | 3,553         | 2,473                | —             | 158,860   | 6,026         |         |
| Operating expense                                | 124,055                                  | 2,409         | 2,341                | 1,477         | 124,055   | 6,227         | 130,282 |
| Operating income (loss)                          | 34,805                                   | 1,144         | 132                  | (1,477 )      | 34,805    | (201 )        | 34,604  |
| Net income (loss)                                | 14,699                                   | 650           | (827 )               | 1,766         | 14,699    | 1,589         | 16,288  |
| Depreciation and amortization                    | 19,745                                   | 260           | 1,258                | —             | 19,745    | 1,518         | 21,263  |
| Senior note, mortgage and other interest expense | 11,649                                   | —             | 1,324                | 6             | 11,649    | 1,330         | 12,979  |
| Income tax expense (benefit) in net income       | 9,948                                    | 457           | (568 )               | 1,279         | 9,948     | 1,168         | 11,116  |
| Assets   | \$ 827,850                               | 9,462         | 83,545               | 34,535        | 827,850   | 127,542       | 955,392 |

\* The "All Other" category includes the accounts of SJW Corp. on a stand-alone basis.

## Note 6. Long-Term Liabilities

SJW Corp.'s contractual obligations and commitments include senior notes, mortgages and other obligations. San Jose Water Company, a subsidiary of SJW Corp., has received advance deposit payments from its customers on certain construction projects. Refunds of the advance deposit payments constitute an obligation of San Jose Water Company solely.

On March 10, 2011, 444 West Santa Clara Street, L.P. refinanced its mortgage loan. The new loan of \$3,300 required a cash call from the partnership of approximately \$500, of which SJW Land Company contributed 70%, or approximately \$350. The new mortgage loan is due in March 2021 and is being amortized over 20 years with a fixed interest rate of 5.68%.

On June 30, 2011, SJW Corp. entered into a Note Agreement (the "Note Agreement") with the Prudential Insurance Company of America (the "Purchaser"), pursuant to which the company sold on the same date an aggregate principal amount of \$50,000 of its 4.35% Senior Notes (the "Notes") to the Purchaser. The Notes are unsecured obligations of the Company, due on June 30, 2021. Interest is payable semi-annually in arrears on December 30th and June 30th of each year.

The Note Agreement contains customary representations and warranties. SJW Corp. has agreed to customary affirmative and negative covenants for as long as the Notes are outstanding, including, subject to certain exceptions and qualifications, (i) a minimum net worth; and (ii) a debt to capitalization ratio. The Notes are subject to customary events of default, the occurrence of which may result in all of the Notes then outstanding becoming immediately due and payable.

On July 1, 2011, SJW Corp., SJW Land Company and Wells Fargo Bank, National Association entered into an amendment to their credit agreement dated May 27, 2010, as amended on December 16, 2010, to decrease the maximum principal amount available under the line of credit from \$45,000 to \$10,000 and to modify the covenants regarding SJW Corp.'s funded debt to capitalization ratio and earnings before interest and taxes coverage ratio.

On July 1, 2011, San Jose Water Company and Wells Fargo Bank, National Association entered into an amendment to their credit agreement dated May 27, 2010, as amended December 16, 2010, to increase the maximum principal amount available under the line of credit from \$50,000 to \$75,000 and to modify the earnings before interest and taxes

coverage ratio covenant.

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## SJW CORP. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2011

(in thousands, except share and per share data)

## Note 7. Fair Value Measurement

The carrying amount of SJW Corp.'s cash and cash equivalents, accounts receivable and accounts payable approximates fair value as of the dates presented because of the short-term maturity of the instruments. The fair value of pension plan assets is discussed in Note 4.

The fair value of SJW Corp.'s long-term debt was approximately \$392,048 and \$344,105 as of September 30, 2011 and December 31, 2010, respectively, and was determined using a discounted cash flow analysis, based on the current rates for similar financial instruments of the same duration and creditworthiness of the company. The book value of the long-term debt was \$345,656 and 296,837 as of September 30, 2011 and December 31, 2010, respectively.

The following table summarizes the fair value of our investment in California Water Service Group as required by FASB ASC Topic 820 – “Fair Value Measurements and Disclosures,” as of September 30, 2011 and December 31, 2010:

|  | Fair Value Measurements at September 30, 2011 |  |  |  |
|--|---|--|--|--|
|  | Total   | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:                                      |   |  |  |  |
| Investment in California Water Service Group | \$6,820                                       | 6,820  | —  | —  |
|  |   |  |  |  |
|  | Fair Value Measurements at December 31, 2010  |  |  |  |
|  | Total   | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:                                      |   |  |  |  |
| Investment in California Water Service Group | \$7,177                                       | 7,177  | —  | —  |

## Note 8. Balancing and Memorandum Account Recovery Procedures

As of September 30, 2011 and December 31, 2010, the total balance in San Jose Water Company's balancing accounts, including interest, was a net under-collection of \$3,448 and \$2,596, respectively. As of September 30, 2011 and December 31, 2010, the total balance in San Jose Water Company's memorandum-type accounts, including interest, was a net under-collection of \$5,483 and \$5,217, respectively. As of September 30, 2011 and December 31, 2010, an under-collection of \$5,740 was included in these amounts relating to the Company's Mandatory Conservation Revenue Adjustment Memorandum Account (“MCRAM”). The status of San Jose Water Company's proposed recovery of this MCRAM is discussed below. All balancing accounts and memorandum-type accounts will generally be reviewed by the CPUC in San Jose Water Company's next general rate case or at the time an individual account reaches a threshold of 2% of authorized revenue, whichever occurs first.

On June 2, 2010, San Jose Water Company filed an advice letter with the CPUC requesting authorization to increase revenues by \$5,740, or approximately 2.61% of authorized revenue at the time of the filing. This increase is intended to recover the accumulated balance in the MCRAM, which was in effect from August 3, 2009 to May 1, 2010. The CPUC authorized San Jose Water Company to establish a MCRAM to track the revenue impact of mandatory conservation upon San Jose Water Company's quantity revenue resulting from mandatory conservation instituted by Santa Clara Valley Water District ("SCVWD"). As directed by the CPUC's Division of Water and Audits, the MCRAM would be recovered via a surcharge on the existing quantity rate for a period of 12 months following final approval by the CPUC. All revenue would be recognized immediately by the Company after final approval by the CPUC. On November 29, 2010, the CPUC's Division of Water and Audits rejected the requested revenue increase without prejudice, claiming that the request should be submitted on a Petition

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2011

(in thousands, except share and per share data)

for Modification of an earlier decision. On December 7, 2010, San Jose Water Company filed a Request for Review of the Rejection. On April 29, 2011, the CPUC's Division of Water and Audits issued draft Resolution W-4875 that would have had the CPUC affirm the rejection of the requested revenue increase. On June 15, 2011, San Jose Water Company submitted comments to the CPUC addressing the factual and legal issues of the draft Resolution. On August 9, 2011, the Division of Water and Audits issued draft Resolution W-4885 which would allow San Jose Water Company's requested recovery of the accumulated balance in the MCRAM. Draft Resolution W-4885 is currently scheduled to be voted on at the November 10th CPUC business meeting.

On June 23, 2011, the CPUC approved Resolution L-411A. The resolution ordered many (but not all) regulated utilities, including San Jose Water Company, to establish memorandum accounts to reflect the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, and offsetting reinvestment, if any, in utility plant. The Act provides for between 50% and 100% bonus depreciation on qualifying assets placed in service between 2010 and 2012. The bonus depreciation taken generates current tax savings and deferred tax liabilities associated with such assets and, as a result, reduces utility rate base below that originally contemplated for rate setting purposes. Under L-411A, the memorandum account will track the impact of this rate base reduction as well as the impact of newly constructed qualifying assets on the Company's authorized revenue. On August 1, 2011, San Jose Water Company filed an advice letter with the CPUC requesting authorization of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 memorandum account. The memorandum account was subsequently approved on August 18, 2011, with an effective date of April 14, 2011 through December 31, 2012.

Note 9. Legal Proceedings

SJW Corp. is subject to ordinary routine litigation incidental to its business. There are no pending legal proceedings to which SJW Corp. or any of its subsidiaries is a party, or to which any of its properties is the subject, that are expected to have a material effect on SJW Corp.'s business, financial position, results of operations or cash flows.

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

(Dollar amounts in thousands, except where otherwise noted and per share amounts)

The information in this Item 2 should be read in conjunction with the financial information and the notes thereto included in Item 1 of this Form 10-Q and the consolidated financial statements and notes thereto and the related "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in SJW Corp.'s Annual Report on Form 10-K for the year ended December 31, 2010.

This report contains forward-looking statements within the meaning of the federal securities laws relating to future events and future results of SJW Corp. and its subsidiaries that are based on current expectations, estimates, forecasts, and projections about SJW Corp. and its subsidiaries and the industries in which SJW Corp. and its subsidiaries operate and the beliefs and assumptions of the management of SJW Corp. Such forward-looking statements are identified by words including "expect," "estimate," "anticipate," "intends," "seeks," "plans," "projects," "may," "should," "will," and similar expressions, and variations of such words, and similar expressions. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Important factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report and our most recent Form 10-K filed with the SEC under the item entitled "Risk Factors," and in other reports SJW Corp. files with the SEC, specifically the most recent reports on Form 10-Q and Form 8-K, each as it may be amended from time to time. SJW Corp. undertakes no obligation to update or revise the information contained in this report, including the forward-looking statements, to reflect any event or circumstance that may arise after the date of this report.

General:

SJW Corp. is a holding company with four subsidiaries: San Jose Water Company, SJW Land Company, SJWTX, Inc., and Texas Water Alliance Limited.

San Jose Water Company, a wholly owned subsidiary of SJW Corp., is a public utility in the business of providing water service to approximately 227,000 connections that serve a population of approximately one million people in an area comprising approximately 138 square miles in the metropolitan San Jose, California area.

The principal business of San Jose Water Company consists of the production, purchase, storage, purification, distribution, wholesale and retail sale of water. San Jose Water Company provides water service to customers in portions of the cities of Cupertino and San Jose and in the cities of Campbell, Monte Sereno, Saratoga and the Town of Los Gatos, and adjacent unincorporated territories, all in the County of Santa Clara in the State of California. San Jose Water Company distributes water to customers in accordance with accepted water utility methods which include pumping from storage and gravity feed from high elevation reservoirs. San Jose Water Company also provides nonregulated water related services under agreements with municipalities. These nonregulated services include full water system operations and billing and cash remittance services.

San Jose Water Company has utility property including land held in fee, impounding reservoirs, diversion facilities, wells, distribution storage, and all water facilities and other property necessary to provide utility service to its customers. Under Section 851 of the California Public Utilities Code, properties currently used and useful in providing utilities services cannot be disposed of unless CPUC approval is obtained.

San Jose Water Company also has approximately 700 acres of nonutility property which has been identified as no longer used and useful in providing utility services. The majority of the properties are located in the hillside area adjacent to San Jose Water Company's various watershed properties.

SJW Land Company, a wholly owned subsidiary of SJW Corp., owned the following real properties as of September 30, 2011:

| Description            | Location             | Acreage | Square Footage | % for Nine Months Ended<br>September 30, 2011<br>of SJW Land Company |         |   |
|------------------------|----------------------|---------|----------------|--|---------|---|
|                        |                      |         |                | Revenue  | Expense |   |
| 2 Commercial buildings | San Jose, California | 2       | 28,000         | 15   | % 13    | % |
| Warehouse building     | Windsor, Connecticut | 17      | 170,000        | 17   | % 12    | % |
| Warehouse building     | Orlando, Florida     | 8       | 147,000        | 10   | % 6     | % |
| Retail building        | El Paso, Texas       | 2       | 14,000         | 7  | % 2     | % |
| Warehouse building     | Phoenix, Arizona     | 11      | 176,000        | 18   | % 11    | % |
| Warehouse building     | Knoxville, Tennessee | 30      | 361,500        | N/A  | 12      | % |
| Commercial building    | Knoxville, Tennessee | 15      | 135,000        | 33   | % 44    | % |
| Undeveloped land       | Knoxville, Tennessee | 10      | N/A            | N/A  | N/A     |   |
| Undeveloped land       | San Jose, California | 5       | N/A            | N/A  | N/A     |   |

SJW Land Company owns a 70% limited partnership interest in 444 West Santa Clara Street, L.P. One of the California properties is owned by such partnership. The limited partnership has been determined to be a variable interest entity within the scope of FASB ASC Topic 810 – “Consolidation” with SJW Land Company as the primary beneficiary, and as a result, it has been consolidated with SJW Land Company.

SJWTX, Inc., a wholly owned subsidiary of SJW Corp., doing business as Canyon Lake Water Service Company (“CLWSC”), is a public utility in the business of providing water service to approximately 9,500 connections that serve approximately 36,000 people. CLWSC’s service area comprises more than 237 square miles in western Comal County and southern Blanco County in the growing region between San Antonio and Austin, Texas. SJWTX, Inc. has a 25% interest in Acequia Water Supply Corporation. The water supply corporation has been determined to be a variable interest entity within the scope of ASC Topic 810 with SJWTX, Inc. as the primary beneficiary, and as a result, it has been consolidated with SJWTX, Inc.

Texas Water Alliance Limited (“TWA”), a wholly owned subsidiary of SJW Corp., is undertaking activities that are necessary to develop a water supply project in Texas.

In addition, as of September 30, 2011, SJW Corp. owns 385,120 shares of common stock of California Water Service Group, which represents approximately 1% of that company’s outstanding shares of common stock.

#### Business Strategy:

SJW Corp. focuses its business initiatives in three strategic areas:

- (1) Regional regulated water utility operations.
- (2) Regional nonregulated water utility related services provided in accordance with the guidelines established by the CPUC in California and the Texas Commission on Environmental Quality (“TCEQ”) in Texas.
- (3) Out-of-region water and utility related services, primarily in the Western United States.

As part of its pursuit of the above three strategic areas, the Company considers from time to time opportunities to acquire businesses and assets. However, SJW Corp. cannot be certain it will be successful in identifying and consummating any strategic business acquisitions relating to such opportunities. In addition, any transaction will involve numerous risks, including the possibility of incurring more costs than benefits derived from the acquisition, the assumption of certain known and unknown liabilities related to the acquired assets, the diversion of management’s attention from day-to-day operations of the business, the potential for a negative impact on SJW Corp.’s financial position and operating results, entering markets in which SJW Corp. has no or limited direct prior experience and the potential loss of key employees of any acquired company. SJW Corp. cannot be certain that any transaction will be successful and will not materially harm its operating results or financial condition.





SJW Corp.'s real estate investment activity is conducted through SJW Land Company. SJW Land Company owns undeveloped land and owns and operates a portfolio of commercial buildings in the states of California, Florida, Connecticut, Texas, Arizona and Tennessee. SJW Land Company also owns a limited partnership interest in 444 West Santa Clara Street, L.P. The partnership owns a commercial building in San Jose, California. SJW Land Company implements its investment strategy by acquiring or disposing of properties or exchanging properties for similar investments in tax-free exchanges. SJW Land Company's real estate investments diversify SJW Corp.'s asset base.

#### Critical Accounting Policies:

SJW Corp. has identified the accounting policies delineated below as the policies critical to its business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. SJW Corp. bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. SJW Corp.'s critical accounting policies are as follows:

##### Revenue Recognition

SJW Corp. recognizes its regulated and nonregulated revenue when services have been rendered, in accordance with FASB ASC Topic 605 – "Revenue Recognition."

Metered revenue of Water Utility Services includes billing to customers based on meter readings plus an estimate of water used between the customers' last meter reading and the end of the accounting period. Water Utility Services read the majority of its customers' meters on a bi-monthly basis and records its revenue based on its meter reading results. Unbilled revenue from the last meter reading date to the end of the accounting period is estimated based on the most recent usage patterns, production records and the effective tariff rates. Actual results could differ from those estimates, which may result in an adjustment to the operating revenue in the period which the revision to Water Utility Services' estimates is determined. As of September 30, 2011 and December 31, 2010, accrued unbilled revenue was \$20,842 and \$12,717, respectively.

Revenues also include a surcharge collected from regulated customers that is paid to the CPUC. This surcharge is recorded both in operating revenues and administrative and general expenses. For the nine months ended September 30, 2011 and 2010, the surcharge was \$2,373 and \$2,229, respectively.

SJW Corp. recognizes its nonregulated revenue based on the nature of the nonregulated business activities. Revenue from San Jose Water Company's nonregulated utility operations and billing or maintenance agreements are recognized when services have been rendered. Revenue from SJW Land Company properties is generally recognized ratably over the term of the leases.

##### Recognition of Regulatory Assets and Liabilities

Generally accepted accounting principles for water utilities include the recognition of regulatory assets and liabilities as permitted by FASB ASC Topic 980 - "Regulated Operations." In accordance with ASC Topic 980, Water Utility Services, to the extent applicable, records deferred costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the ratemaking process in a period different from when the costs and credits are incurred. Accounting for such costs and credits is based on management's judgment and prior historical ratemaking practices, and it occurs when management determines that it is probable that these costs and credits will be recognized in the future revenue of Water Utility Services through the ratemaking process. The regulatory assets and liabilities recorded by Water Utility Services, in particular, San Jose Water Company, primarily relate to the recognition of deferred income taxes for ratemaking versus tax accounting purposes and the postretirement pension benefits, medical costs, accrued benefits for vacation and asset retirement obligations that have not been passed through in rates. The disallowance of any asset in future ratemaking, including deferred regulatory assets, would require San Jose Water Company to immediately recognize the impact of the costs for financial reporting purposes. No disallowance was recognized as of September 30, 2011 and December 31, 2010. Net regulatory assets recorded by San Jose Water Company as of September 30, 2011 and December 31, 2010 were

\$87,721 and \$87,721, respectively.

**Pension Plan Accounting**

San Jose Water Company offers a Pension Plan, an Executive Supplemental Retirement Plan, and certain postretirement benefits other than pensions to employees retiring with a minimum level of service. Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate applied to expected benefit obligations, expected return on plan assets, the rate of future compensation increases expected to be received by the employees, mortality, turnover, and medical costs. Plan assets are marked to market at each measurement date.

#### Income Taxes

SJW Corp. estimates its federal and state income taxes as part of the process of preparing financial statements. The process involves estimating the actual current tax exposure together with assessing temporary differences resulting from different treatment of items for tax and accounting purposes, including the evaluation of the treatment acceptable in the water utility industry and regulatory environment. These differences result in deferred tax assets and liabilities, which are included on the balance sheet. If actual results, due to changes in the regulatory treatment, or significant changes in tax-related estimates or assumptions or changes in law, differ materially from these estimates, the provision for income taxes will be materially impacted.

#### Balancing and Memorandum Accounts

The purpose of a balancing account is to track the under-collection or over-collection associated with expense changes and the revenue authorized by the CPUC to offset those expense changes. Pursuant to Section 792.5 of the California Public Utilities Code, a balancing account must be maintained for expense items for which revenue offsets have been authorized.

Balancing accounts are currently being maintained for the following items: purchased water, purchased power and groundwater extraction charges. The amount in the balancing account varies with the seasonality of the water utility business such that, during the summer months when the demand for water is at its peak, the account tends to reflect an under-collection while, during the winter months when demand for water is relatively lower, the account tends to reflect an over-collection. In addition, San Jose Water Company maintains balancing accounts for pensions and other approved activities.

Since the amounts in the balancing accounts must be approved by the CPUC before they can be incorporated into rates, San Jose Water Company does not recognize balancing accounts in its revenue until the CPUC approval occurs. It is typical for the CPUC to incorporate any over-collected and/or under-collected balances in balancing accounts into customer rates at the time rate decisions are made as part of the Company's general rate case proceedings by assessing temporary surcredits and/or surcharges.

San Jose Water Company also maintains memorandum accounts to track revenue impacts due to catastrophic events, certain unforeseen water quality expenses related to new federal and state water quality standards, energy efficiency and any revenue requirement impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Rate recovery for these memorandum accounts are generally allowed in the next general rate cases.

In the case where the Company's balancing or memorandum-type accounts that have been authorized by the CPUC reach certain thresholds or have termination dates, the Company can request the CPUC to recognize the amounts in such accounts in customer rates prior to the next regular general rate case proceeding by filing an advice letter. If such amounts are authorized for inclusion into customer rates, revenue would be recognized at the time authorization is received pursuant to ASC Topic 605 and Sub-Topic 980-605 – "Revenue Recognition."

If the balancing or memorandum-type accounts had been recognized in San Jose Water Company's financial statements, San Jose Water Company's earnings and retained earnings would be decreased by the amount of surcredits in the case of over-collection or increased by the surcharges in the case of under-collection, less applicable taxes.

## Results of Operations:

Water sales are seasonal in nature and influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater and lower in the winter months when cooler temperatures and increased rainfall curtail water usage and sales.

## Overview

SJW Corp.'s consolidated net income for the three months ended September 30, 2011 was \$8,215, a decrease of \$2,572 or approximately 24%, from \$10,787 in the third quarter of 2010. For the nine months ended September 30, 2011, consolidated net income was \$14,276, a decrease of \$2,012 or 12%, from \$16,288 for the same period in 2010. The decrease in net income occurred despite an increase in operating income of \$564 and \$3,267 for the three and nine months ended September 30, 2011 compared to 2010, respectively, primarily due to rate increases offset by higher depreciation and water production costs. The net income decreased for the three and nine months ended September 30, 2011 primarily due to the gain on sale of California Water Service Group stock recorded in 2010 that did not recur in 2011.

## Operating Revenue

|                        | Operating Revenue by Segment        |        |                                    |         |
|------------------------|-------------------------------------|--------|------------------------------------|---------|
|                        | THREE MONTHS ENDED<br>SEPTEMBER 30, |        | NINE MONTHS ENDED<br>SEPTEMBER 30, |         |
|                        | 2011                                | 2010   | 2011                               | 2010    |
| Water Utility Services | \$72,717                            | 69,503 | \$173,234                          | 162,413 |
| Real Estate Services   | 1,197                               | 844    | 3,383                              | 2,473   |
|                        | \$73,914                            | 70,347 | \$176,617                          | 164,886 |

The change in consolidated operating revenues was due to the following factors:

|                         | Three months ended<br>September 30,<br>2011 vs. 2010 |      | Nine months ended<br>September 30,<br>2011 vs. 2010 |          |   |   |
|-------------------------|--|------|---|----------|---|---|
|                         | Increase/(decrease)                                  |      | Increase/(decrease)                                 |          |   |   |
| Water Utility Services: |  |      |   |          |   |   |
| Consumption changes     | \$(1,427   | ) (2 | )%  | \$1,366  | 1 | % |
| New customers increase  | 221  | —    | %   | 544      | — | % |
| Rate increases          | 4,420  | 6    | %   | 8,911    | 5 | % |
| Real Estate Services    | 353  | 1    | %   | 910      | 1 | % |
|                         | \$3,567  | 5    | %   | \$11,731 | 7 | % |

## Operating Expense

|                        | Operating Expense by Segment        |        |                                    |         |
|------------------------|-------------------------------------|--------|------------------------------------|---------|
|                        | THREE MONTHS ENDED<br>SEPTEMBER 30, |        | NINE MONTHS ENDED<br>SEPTEMBER 30, |         |
|                        | 2011                                | 2010   | 2011                               | 2010    |
| Water Utility Services | \$54,043                            | 50,966 | \$134,694                          | 126,464 |
| Real Estate Services   | 844                                 | 892    | 2,493                              | 2,341   |
| All Other              | 541                                 | 567    | 1,559                              | 1,477   |
|                        | \$55,428                            | 52,425 | \$138,746                          | 130,282 |



The change in consolidated operating expenses was due to the following factors:

|   | Three months ended             |   |    | Nine months ended              |   |   |
|---|--------------------------------|---|----|--------------------------------|---|---|
|   | September 30,<br>2011 vs. 2010 |   |    | September 30,<br>2011 vs. 2010 |   |   |
|   | Increase/(decrease)            |   |    | Increase/(decrease)            |   |   |
| Water production costs:   |                                |   |    |                                |   |   |
| Change in surface water supply  | \$ (82                         | ) | —  | % \$433                        | — | % |
| Change in usage and new customers   | (266                           | ) | (1 | )% 492                         | — | % |
| Purchased water and groundwater extraction charge and energy price increase | 2,205                          |   | 5  | % 2,415                        | 2 | % |
| Total water production costs  | 1,857                          |   | 4  | % 3,340                        | 2 | % |
| Administrative and general  | (352                           | ) | (1 | )% 1,315                       | 1 | % |
| Maintenance   | 436                            |   | 1  | % 895                          | 1 | % |
| Property taxes and other non-income taxes                                   | 341                            |   | 1  | % 788                          | 1 | % |
| Depreciation and amortization   | 721                            |   | 1  | % 2,126                        | 2 | % |
|   | \$3,003                        |   | 6  | % \$8,464                      | 7 | % |

#### Sources of Water Supply

San Jose Water Company's water supply consists of groundwater from wells, surface water from watershed run-off and diversion, reclaimed water and imported water purchased from the SCVWD under the terms of a master contract with SCVWD expiring in 2051.

CLWSC's water supply consists of groundwater from wells and purchased raw water from the Guadalupe-Blanco River Authority ("GBRA"). CLWSC has long-term agreements with GBRA, which expire in 2040, 2044 and 2050. The agreements provide CLWSC with 6,700 acre-feet of water per year from Canyon Lake at prices to be adjusted periodically by GBRA.

Surface water is the least expensive source of water. The following table presents the change in sources of water supply, in million gallons, for Water Utility Services:

|                 | THREE MONTHS    |        |                         |          | NINE MONTHS           |        |                         |          |   |
|-----------------|-----------------|--------|-------------------------|----------|-----------------------|--------|-------------------------|----------|---|
|                 | ENDED SEPTEMBER |        | Increase/<br>(decrease) | % Change | ENDED                 |        | Increase/<br>(decrease) | % Change |   |
|                 | 30,<br>2011     | 2010   |                         |          | SEPTEMBER 30,<br>2011 | 2010   |                         |          |   |
| Purchased water | 9,452           | 8,636  | 816                     | 5        | % 20,031              | 17,607 | 2,424                   | 7        | % |
| Groundwater     | 4,644           | 5,615  | (971)                   | (6)      | % 11,003              | 12,854 | (1,851)                 | (5)      | % |
| Surface water   | 1,442           | 1,400  | 42                      | —        | % 4,425               | 4,655  | (230)                   | (1)      | % |
| Reclaimed water | 217             | 196    | 21                      | —        | % 324                 | 329    | (5)                     | —        | % |
|                 | 15,755          | 15,847 | (92)                    | (1)      | % 35,783              | 35,445 | 338                     | 1        | % |

The changes in the source of supply mix were consistent with the changes in the water production costs.

Unaccounted-for water on a 12 month-to-date basis for September 30, 2011 and 2010 approximated 7.79% and 7.36%, respectively, as a percentage of total production. The estimate is based on the results of past experience and current trends, and efforts to reduce Water Utility Services' unaccounted-for water through main replacements and lost water reduction programs.

#### Water production costs

For the three months ended September 30, 2011 compared to 2010, the increase in water production costs was primarily attributable to higher per unit costs for purchased water and groundwater extraction charges, partially offset by lower customer water usage and an increase in the use of available surface water supply. For the nine months ended September 30, 2011 compared to 2010, the increase in water production costs was primarily attributable to higher per unit costs for purchased water and groundwater extraction charges, higher customer water usage and an increase in the use of purchased water. This resulted from a decrease in the use of available surface water supply during the first three months of 2011 due to inclement weather conditions which impacted our ability to treat available surface water.

Other Operating Expenses

Operating expenses, excluding water production costs, increased \$1,146 for the three months ended September 30, 2011 compared to the three months ended September 30, 2010. The increase was primarily attributable to an increase of \$721 in depreciation expense due to increased depreciable assets, \$436 increase in maintenance expenses due to an increase in contract, material and paving costs as a result of an increase in main leak repairs, \$341 increase in property taxes and other non-income taxes due primarily to increases in utility plant, partially offset by a \$352 decrease in administrative and general expenses.



Operating expenses, excluding water production costs, increased \$5,124 for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. The increase was primarily attributable to an increase of \$2,126 in depreciation expense due to increases in utility plant, \$1,315 in administrative and general expenses primarily due to an increase in contracted work, regulatory fees and wages. The increase in contract work was primarily due to water conservation efforts related to the recycled water retrofit program. The wage increase is primarily a result of the three-year collective bargaining agreement reached on November 23, 2010, with the Utility Workers of America and International Union of Operating Engineers. Additional increases in other operating expenses include \$895 in maintenance expenses due to an increase in contract, material and paving costs and \$788 in property taxes and other non-income taxes as a result of increased utility plant.

#### Other (Expense) Income

The change in other (expense) income for the three and nine months ended September 30, 2011 and 2010 was primarily due to interest expense on new senior note borrowings and a pre-tax gain of \$4,466 in 2010 related to the sale of California Water Service Group shares which did not reoccur in 2011.

#### Provision for Income Taxes

Income tax expense decreased \$1,973 and \$1,506 for the three and nine months ended September 30, 2011 versus September 30, 2010, respectively, as a result of lower pre-tax income. The effective tax rate was 39.48% and 40.47% for the three months ended September 30, 2011 and 2010, respectively, and 40.23% and 40.56% for the nine months ended September 30, 2011 and 2010, respectively. The Company was notified during the quarter by the Internal Revenue Service that they will be auditing fiscal years 2008 and 2009.

#### Other Comprehensive Loss

The change in other comprehensive loss for the three and nine months ended September 30, 2011 and 2010 was due to the changes in market value of the investment in California Water Service Group.

#### Water Supply

On October 1, 2011, SCVWD's 10 reservoirs were approximately 57% full with 96,532 acre-feet of water in storage. As reported by SCVWD, for the first quarter of the rainfall season that commenced on July 1, 2011 and ends on June 30, 2012, there was no measurable rainfall. As of September 30, 2011, San Jose Water Company's Lake Elzman contained 611 million gallons of which approximately 411 million gallons can be utilized. Local surface water is a less costly source of water than groundwater or purchased water and its availability significantly impacts San Jose Water Company's results of operations. San Jose Water Company believes that its various sources of water supply will be sufficient to meet customer demand through the remainder of 2011.

On December 15, 2008, the U.S. Fish and Wildlife Service issued a Biological Opinion ("BiOp") and Incidental Take Statement for the Central Valley Project ("CVP") and the State Water Project ("SWP") on the Delta smelt. The BiOp prescribes a range of operational criteria that are determined based on hydrology, fish distribution, abundance and other factors. Under a "most likely" scenario, the California Department of Water Resources and United States Bureau of Reclamation estimate that SWP and CVP supplies to SCVWD could be reduced by approximately 17% to 18% of the supply amount they currently receive. Under a "worst case" BiOp scenario, SWP and CVP supplies to SCVWD could be reduced by approximately 32% to 33% of the current supply amount they receive. In addition, while there is some overlap with the California Fish & Game Commission's restrictions to protect longfin smelt, the longfin pumping restrictions, if triggered, could cause significant supply impacts beyond those estimated to comply with Delta smelt requirements.

On March 24, 2009, the SCVWD board of directors passed a resolution calling for a mandatory 15% reduction in water use for the remainder of the calendar year 2009. On December 8, 2009, this call for conservation was further extended through June 2010. To effect water restrictions, SCVWD worked with other political subdivisions that possess the authority to enact and enforce drought ordinances in order to effect such restrictions. San Jose Water Company worked with the CPUC to develop its water conservation plan to comply with the call for a 15% reduction in water use. The CPUC approved the plan, which became effective on August 12, 2009 and remained in effect through June 2010.

On July 13, 2010, the SCVWD board of directors passed a resolution calling for a three-month, 10% mandatory water conservation through September 30, 2010. On August 31, 2010, the SCVWD board of directors held a special work

study session, which included retailers and municipalities, to discuss tiered rates and the effect on water conservation. On September 28, 2010, the SCVWD board of directors voted to end mandatory conservation, but continued to request a voluntary 10% conservation through June 30, 2011. Upon expiration, the request for voluntary conservation was not renewed by the SCVWD board of directors.

## Regulation and Rates

Almost all of the operating revenue of San Jose Water Company results from the sale of water at rates authorized by the CPUC. The CPUC sets rates that are intended to provide revenue sufficient to recover operating expenses and produce a specified return on common equity. The timing of rate decisions could have an impact on the results of operations.

On June 2, 2010, San Jose Water Company filed an advice letter with the CPUC requesting authorization to increase revenues by \$5,740, or approximately 2.61% of authorized revenue at the time of the filing. This increase is intended to recover the accumulated balance in the MCRAM, which was in effect from August 3, 2009 to May 1, 2010. The CPUC-authorized MCRAM is intended to track the revenue impact of mandatory conservation upon San Jose Water Company's quantity revenue resulting from mandatory conservation instituted by the SCVWD. As directed by the CPUC's Division of Water and Audits, the MCRAM would be recovered via a surcharge on the existing quantity rate for a period of 12 months following final approval by the CPUC. All revenue would be recognized immediately after final approval by the CPUC. On November 29, 2010, the CPUC's Division of Water and Audits rejected the requested revenue increase without prejudice, claiming that the request should be submitted on a Petition for Modification of an earlier decision. On December 7, 2010, San Jose Water Company filed a Request for Review of the Rejection. On April 29, 2011, the CPUC's Division of Water and Audits issued draft Resolution W-4875 that would have had the CPUC affirm the rejection of the requested revenue increase. On June 15, 2011, San Jose Water Company submitted comments to the CPUC addressing the factual and legal issues of the draft Resolution. On August 9, 2011, the Division of Water and Audits issued draft Resolution W-4885 which would allow San Jose Water Company's requested recovery of the accumulated balance in the MCRAM. Draft Resolution W-4885 is currently scheduled to be voted on at the November 10th CPUC business meeting.

On September 30, 2010, San Jose Water Company, in compliance with Commission Decision 09-11-032, requested the CPUC's approval of upgrades to San Jose Water Company's 40-year old Montevina Water Treatment Plant ("MWTP"). The MWTP treats surface water from the local watershed by direct media filtration and chlorine disinfection. Over the past 40 years, state and federal drinking water regulations have changed significantly in areas that the MWTP was not designed to address. The MWTP has aging infrastructure and many of its components are out-dated and at the end of their useful lives. In addition, the concrete structures do not meet current structural and seismic requirements. The total planned project cost is \$73,700 over five years, with the project commencing in late 2011. San Jose Water Company's application is requesting revenue increases of \$490 or 0.22% in 2011, \$1,861 or 0.85% in 2012, \$7,700 or 3.50% in 2013, \$3,547 or 1.61% in 2014 and \$843 or 0.38% in 2015 (all at the current authorized rate of return). A decision on the application is expected sometime in the fourth quarter of 2011.

On May 2, 2011, San Jose Water Company filed Application No. 11-05-002 with the CPUC seeking authorization of an updated Cost of Capital ("COC") for the period from January 1, 2012 through December 31, 2014. For 2012, San Jose Water Company is seeking CPUC approval of a return on equity of 11.50%, a long-term cost of debt of 6.68% and a return on rate-base of 9.14%. San Jose Water Company's application was subsequently consolidated with the COC application of three other Class A water companies (California Water Service Company, California American Water and Golden State Water Company). A pre-hearing conference was held on June 14, 2011. A scoping memo was issued on September 13, 2011. A CPUC decision on this application is expected in the first quarter of 2012.

On June 23, 2011, the CPUC approved Resolution L-411A. The resolution ordered many (but not all) regulated utilities, including San Jose Water Company, to establish memorandum accounts to reflect the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, and offsetting reinvestment, if any, in utility plant. The Act provides for between 50% and 100% bonus depreciation on qualifying assets placed in service between 2010 and 2012. The bonus depreciation taken generates current tax savings and deferred tax liabilities associated with such assets and, as a result, reduces utility rate base below that originally contemplated for rate setting purposes. Under L-411A, the memorandum account will track the impact of this rate base reduction as well as the impact of newly constructed qualifying assets on the Company's authorized revenue. On August 1, 2011, San Jose Water Company filed an advice letter with the CPUC requesting authorization of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 memorandum account. The memorandum account was subsequently approved on August 18, 2011, with an effective date of April 14, 2011.

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On August 27, 2010, CLWSC filed a rate case with the TCEQ. The filing contained a request for an immediate increase in revenue of 38% and a total increase of 71%. The new rates (38%) became effective, subject to refund, on October 27, 2010. CLWSC is also requesting the TCEQ for a rate base determination. An evidentiary hearing on the matter has been scheduled for March 2012, and a TCEQ decision is expected sometime in the second quarter of 2012.

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Liquidity:

Cash Flow from Operating Activities

During the nine months ended September 30, 2011, SJW Corp. generated cash flow from operations of approximately \$49,000, compared to \$33,200 for the same period in 2010. Cash flow from operations is primarily generated by net income from its revenue producing activities, adjusted for non-cash expenses for depreciation and amortization, deferred income taxes and changes in working capital items. Cash flow from operations increased by approximately \$15,800. This increase was caused by a combination of the following factors: (1) net income adjusted for non-cash items increased \$14,900, including the current period impact of bonus depreciation on deferred income taxes, (2) net collection of taxes receivable were \$2,200 more than the prior period, and (3) general working capital and postretirement changes caused a \$1,300 decrease.

As of September 30, 2011, Water Utility Services' write-offs for uncollectible accounts represent less than 1% of its total revenue, unchanged from September 30, 2010. Management believes it can continue to collect its accounts receivable balances at its historical collection rate.

Cash Flow from Investing Activities

During the nine months ended September 30, 2011, SJW Corp. used approximately \$43,300 of cash for company funded capital expenditures, \$5,300 for developer funded capital expenditures, and \$2,100 for acquisitions.

During the quarter, the Company revised the Water Utility Services' budgeted capital expenditures for 2011 to \$63,008. This amount is exclusive of capital expenditures financed by customer contributions and advances.

Historically, amounts have been carried over from previous years' budgets. Approximately \$10,600 has been carried over from prior years' budget and is included in the amount above. As of September 30, 2011, \$43,346 or 69% of the \$63,008 has been spent.

Water Utility Services' capital expenditures are incurred in connection with normal upgrading and expansion of existing facilities and to comply with environmental regulations. Over the next five years, Water Utility Services expects to incur approximately \$469,000 in capital expenditures, which includes replacement of pipes and mains, and maintaining water systems. Capital expenditures have the effect of increasing utility plant on which Water Utility Services earns a return. Water Utility Services actual capital expenditures may vary from their projections due to changes in the expected demand for services, weather patterns, actions by governmental agencies, and general economic conditions. Total additions to utility plant normally exceed company-financed additions as a result of new facilities construction funded with advances from developers and contributions in aid of construction.

A substantial portion of San Jose Water Company's distribution system was constructed during the period from 1945 to 1980. Expenditure levels for renewal and modernization of this part of the system will grow at an increasing rate as these components reach the end of their useful lives. In most cases, replacement cost will significantly exceed the original installation cost of the retired assets due to increases in the costs of goods and services and increased regulation. San Jose Water Company also expects to realize an increase in net salvage cost.

Cash Flow from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2011 increased by approximately \$4,400 from the same period in the prior year. The increase was primarily due to loan proceeds from senior note borrowings and a net increase in borrowings on our line of credit. Long-term borrowings during the nine months ended September 30, 2011 consisted of a \$50,000 SJW Corp. unsecured senior note issued in June 2011. During the same period in the prior year, San Jose Water Company issued \$50,000 in California Pollution Control Financing Authority Revenue Bonds.

Sources of Capital:

San Jose Water Company's ability to finance future construction programs and sustain dividend payments depends on its ability to maintain or increase internally generated funds and attract external financing. The level of future earnings and the related cash flow from operations is dependent, in large part, upon the timing and outcome of regulatory proceedings.

San Jose Water Company's financing activity is designed to achieve a capital structure consistent with regulatory guidelines of approximately 48% debt and 52% equity (book value). As of September 30, 2011, San Jose Water Company's funded debt and equity were approximately 53% and 47%, respectively.

Company internally-generated funds, which include allowances for depreciation and deferred income taxes, have provided approximately 50% of the cash requirements for San Jose Water Company's capital expenditures. Funding for its future capital expenditure program is expected to be provided primarily through internally-generated funds, the issuance of new long-term debt, the issuance of equity or the sale of all or part of our investment in California Water Service Group, all of which will be

consistent with the regulator's guidelines.

SJW Corp.'s unsecured senior note agreement has terms and conditions that restrict SJW Corp. from issuing additional funded debt if: (1) the funded consolidated debt would exceed 66-2/3% of total capitalization, and (2) the minimum net worth of SJW Corp. becomes less than \$175,000 plus 30% of Water Utility Services cumulative net income, since June 30, 2011. As of September 30, 2011, SJW Corp. is not restricted from issuing future indebtedness as a result of these terms and conditions.

San Jose Water Company's unsecured senior note agreements generally have terms and conditions that restrict San Jose Water Company from issuing additional funded debt if: (1) the funded debt would exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar-month period would be less than 175% of interest charges. As of September 30, 2011, San Jose Water Company's funded debt was 53% of total capitalization and the net income available for interest charges was 273% of interest charges. As of September 30, 2011, San Jose Water Company is not restricted from issuing future indebtedness as a result of these terms and conditions.

San Jose Water Company's loan agreement with the California Pollution Control Financing Authority contains affirmative and negative covenants customary for a loan agreement relating to revenue bonds, including, among other things, complying with certain disclosure obligations and covenants relating to the tax exempt status of the interest on the bonds and limitations and prohibitions relating to the transfer of projects funded by the loan proceeds and the assignment of the loan agreement. As of September 30, 2011, San Jose Water Company was in compliance with all such covenants.

SJWTX, Inc.'s unsecured senior note agreement has SJW Corp. as a guarantor of the senior note which has terms and conditions that restrict SJW Corp. from issuing additional funded debt if: (1) the funded consolidated debt would exceed 66-2/3% of total capitalization, and (2) the minimum net worth of SJW Corp. becomes less than \$125,000 plus 30% of Water Utility Services cumulative net income, since December 31, 2005. As of September 30, 2011, SJW Corp. is not restricted from issuing future indebtedness as a result of these terms and conditions.

As of September 30, 2011, SJW Corp. and its subsidiaries had unsecured bank lines of credit, allowing aggregate short-term borrowings of up to \$85,000, of which \$10,000 was available to SJW Corp. and SJW Land Company under a single line of credit and \$75,000 was available to San Jose Water Company under another line of credit. \$3,000 under the San Jose Water Company line of credit is set aside as security for its Safe Drinking Water State Revolving Fund loans. At September 30, 2011, SJW Corp. and its subsidiaries had available unused short-term bank lines of credit of \$76,500. These lines of credit bear interest at variable rates. They will expire on June 1, 2012. The cost of borrowing on SJW Corp.'s short-term credit facilities averaged 1.64% for the first nine months of 2011. SJW Corp., on a consolidated basis, has the following affirmative covenants on its unsecured bank line of credit: (1) the funded debt cannot exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar-month period cannot be less than 175% of interest charges. As of September 30, 2011, SJW Corp.'s funded debt was 57% of total capitalization and the net income available for interest charges was 296% of interest charges. As such, as of September 30, 2011, SJW Corp. was in compliance with all covenants. San Jose Water Company's unsecured bank line of credit has the following affirmative covenants: (1) the funded debt cannot exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar-month period cannot be less than 175% of interest charges. As of September 30, 2011, San Jose Water Company was in compliance with all covenants.

On February 3, 2011, SJW Corp. filed with the SEC a Form S-3 to provide stockholders the opportunity to participate in SJW Corp.'s Dividend Reinvestment and Stock Purchase Plan. Such filing became effective on April 19, 2011.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SJW Corp. is subject to market risks in the normal course of business, including changes in interest rates, pension plan asset values, and equity prices. The exposure to changes in interest rates can result from the issuance of debt and short-term funds obtained through the Company's variable rate lines of credit. SJW Corp. also owns 385,120 shares of common stock of California Water Service Group as of September 30, 2011, which is listed on the New York Stock Exchange, and is therefore exposed to the risk of fluctuations and changes in equity prices.

SJW Corp. has no material derivative financial instruments, financial instruments with significant off-balance sheet risks, or financial instruments with concentrations of credit risk. There is no material sensitivity to changes in market rates and prices.

### ITEM 4. CONTROLS AND PROCEDURES

SJW Corp.'s management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of SJW Corp.'s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, the "Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that SJW Corp.'s disclosure controls and procedures as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by SJW Corp. in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. SJW Corp. believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There has been no change in internal control over financial reporting during the third fiscal quarter of 2011 that has materially affected, or is reasonably likely to materially affect, the internal controls over financial reporting of SJW Corp.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

SJW Corp. is subject to ordinary routine litigation incidental to its business. There are no pending legal proceedings to which SJW Corp. or any of its subsidiaries is a party, or to which any of its properties is the subject, that are expected to have a material effect on SJW Corp.'s business, financial position, results of operations or cash flows.

### ITEM 5. OTHER INFORMATION

On October 26, 2011, the Board of Directors of SJW Corp. declared the regular quarterly dividend of \$0.1725 per share of common stock. The dividend will be paid on December 1, 2011 to shareholders of record as of the close of business on November 7, 2011.

### ITEM 6. EXHIBITS

See Exhibit Index located immediately following the Signatures of this document, which is incorporated herein by reference as required to be filed by Item 601 of Regulation S-K for the quarter ended September 30, 2011.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SJW CORP.

DATE: November 2, 2011

By /s/ JAMES P. LYNCH  
James P. Lynch  
Chief Financial Officer and Treasurer  
(Principal financial officer)

EXHIBIT INDEX

| Exhibit Number | Description   |
|----------------|---|
| 10.1           | Second Amendment to Credit Agreement by and between SJW Corp., SJW Land Company and Wells Fargo Bank, National Association dated July 1, 2011 and Second Modification to Promissory Note dated July 1, 2011. Incorporated by reference as Exhibit 10.1 to Form 8-K filed on July 7, 2011. |
| 10.2           | Second Amendment to Credit Agreement by and between San Jose Water Company and Wells Fargo Bank, National Association dated July 1, 2011 and Second Modification to Promissory Note dated July 1, 2011. Incorporated by reference as Exhibit 10.2 to Form 8-K filed on July 7, 2011.      |
| 10.3           | Third Modification to Promissory Note dated August 1, 2011 by and between SJW Corp., SJW Land Company and Wells Fargo Bank, National Association. (1)   |
| 10.4           | Third Modification to Promissory Note dated July 27, 2011 by and between San Jose Water Company and Wells Fargo Bank, National Association. (1)   |
| 10.5           | Plan Amendment to San Jose Water Company Executives Supplemental Retirement Plan effective January 1, 2011. (1) (2)   |
| 31.1           | Certification Pursuant to Rule 13a-14(a)/15d-14(a) by President and Chief Executive Officer. (1)  |
| 31.2           | Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chief Financial Officer and Treasurer. (1)  |
| 32.1           | Certification Pursuant to 18 U.S.C. Section 1350 by President and Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)  |
| 32.2           | Certification Pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer and Treasurer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)  |

(1) Filed currently herewith.

(2) Management contract or compensatory plan or agreement.