

SJW CORP
Form 10-Q
October 31, 2016

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

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, 2016
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 21, 2016, there were 20,456,225 shares of the registrant's Common Stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SJW Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands, except share and per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| OPERATING REVENUE | \$ 112,344 | 82,955 | \$ 260,400 | 217,469 |
| OPERATING EXPENSE: | | | | |
| Production Expenses: | | | | |
| Purchased water | 28,681 | 22,085 | 52,863 | 47,371 |
| Power | 2,141 | 2,500 | 4,992 | 5,200 |
| Groundwater extraction charges | 10,867 | 7,920 | 25,627 | 22,053 |
| Other production expenses | 3,311 | 3,033 | 9,815 | 9,095 |
| Total production expenses | 45,000 | 35,538 | 93,297 | 83,719 |
| Administrative and general | 12,449 | 12,101 | 35,690 | 34,861 |
| Maintenance | 4,217 | 3,975 | 12,082 | 11,187 |
| Property taxes and other non-income taxes | 3,213 | 2,893 | 9,115 | 8,878 |
| Depreciation and amortization | 11,119 | 10,188 | 33,489 | 30,549 |
| Total operating expense | 75,998 | 64,695 | 183,673 | 169,194 |
| OPERATING INCOME | 36,346 | 18,260 | 76,727 | 48,275 |
| OTHER (EXPENSE) INCOME: | | | | |
| Interest on long-term debt | (4,993) | (5,200) | (15,039) | (15,838) |
| Mortgage and other interest expense | (433) | (316) | (1,291) | (948) |
| Gain on sale of California Water Service Group stock | — | — | 3,197 | — |
| Gain on sale of real estate investments | 124 | 1,886 | 124 | 1,886 |
| Dividend income | 17 | 43 | 70 | 130 |
| Other, net | 410 | 398 | 869 | 921 |
| Income before income taxes | 31,471 | 15,071 | 64,657 | 34,426 |
| Provision for income taxes | 12,512 | 5,537 | 25,545 | 12,736 |
| NET INCOME | 18,959 | 9,534 | 39,112 | 21,690 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized (loss) gain on investment | (169) | (112) | 848 | (382) |
| Reclassification adjustment for gain realized on sale of investments | — | — | (1,742) | — |
| COMPREHENSIVE INCOME | \$ 18,790 | 9,422 | \$ 38,218 | 21,308 |
| EARNINGS PER SHARE | | | | |
| Basic | \$0.93 | 0.47 | \$ 1.91 | 1.07 |
| Diluted | \$0.92 | 0.46 | \$ 1.90 | 1.06 |
| DIVIDENDS PER SHARE | \$0.20 | 0.20 | \$0.61 | 0.59 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | | |
| Basic | 20,451,930 | 20,375,960 | 20,434,494 | 20,353,487 |
| Diluted | 20,602,410 | 20,531,855 | 20,580,728 | 20,504,701 |

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, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Utility plant: | | |
| Land | \$ 17,885 | 17,853 |
| Depreciable plant and equipment | 1,535,986 | 1,438,321 |
| Construction in progress | 65,101 | 45,573 |
| Intangible assets | 23,811 | 22,675 |
| | 1,642,783 | 1,524,422 |
| Less accumulated depreciation and amortization | 517,314 | 487,659 |
| | 1,125,469 | 1,036,763 |
| Real estate investments | 62,127 | 74,641 |
| Less accumulated depreciation and amortization | 11,412 | 13,207 |
| | 50,715 | 61,434 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 17,663 | 5,239 |
| Accounts receivable: | | |
| Customers, net of allowances for uncollectible accounts | 21,429 | 16,390 |
| Income tax | 20,015 | 10,852 |
| Other | 950 | 2,192 |
| Accrued unbilled utility revenue | 32,669 | 17,417 |
| Long-lived asset held-for-sale | 9,907 | — |
| Current regulatory assets, net | 25,661 | 16,542 |
| Other current assets | 5,045 | 4,744 |
| | 133,339 | 73,376 |
| OTHER ASSETS: | | |
| Investment in California Water Service Group | 3,209 | 6,030 |
| Net regulatory assets, less current portion | 133,663 | 152,021 |
| Other | 7,946 | 7,701 |
| | 144,818 | 165,752 |
| | \$ 1,454,341 | 1,337,325 |

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, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| CAPITALIZATION AND LIABILITIES | | |
| CAPITALIZATION: | | |
| Shareholders' equity: | | |
| Common stock, \$0.521 par value; authorized 36,000,000 shares; issued and outstanding 20,456,225 shares on September 30, 2016 and 20,381,949 on December 31, 2015 | \$ 10,655 | 10,616 |
| Additional paid-in capital | 70,706 | 68,636 |
| Retained earnings | 328,829 | 302,220 |
| Accumulated other comprehensive income | 1,418 | 2,311 |
| Total shareholders' equity | 411,608 | 383,783 |
| Long-term debt, less current portion | 364,229 | 377,187 |
| | 775,837 | 760,970 |
| CURRENT LIABILITIES: | | |
| Line of credit | 63,900 | 34,600 |
| Current portion of long-term debt | 11,554 | 3,491 |
| Accrued groundwater extraction charges, purchased water and power | 13,697 | 7,163 |
| Accounts payable | 21,673 | 16,196 |
| Accrued interest | 5,775 | 6,193 |
| Accrued property taxes and other non-income taxes | 3,222 | 1,622 |
| Accrued payroll | 3,889 | 4,203 |
| Deposit, long-lived asset held-for-sale | 20,000 | — |
| Other current liabilities | 7,417 | 6,155 |
| | 151,127 | 79,623 |
| DEFERRED INCOME TAXES | 214,633 | 198,775 |
| ADVANCES FOR CONSTRUCTION | 81,027 | 76,572 |
| CONTRIBUTIONS IN AID OF CONSTRUCTION | 147,576 | 141,194 |
| POSTRETIREMENT BENEFIT PLANS | 73,068 | 70,230 |
| OTHER NONCURRENT LIABILITIES | 11,073 | 9,961 |
| COMMITMENTS AND CONTINGENCIES | — | — |
| | \$ 1,454,341 | 1,337,325 |

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 September 30, | |
|---|------------------------------------|-----------------|
| | 2016 | 2015 |
| OPERATING ACTIVITIES: | | |
| Net income | \$39,112 | 21,690 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 34,740 | 31,740 |
| Deferred income taxes | 16,755 | 4,705 |
| Share-based compensation | 1,316 | 1,208 |
| Gain on sale of real estate investments | (124) | (1,886) |
| Gain on sale of California Water Service Group stock | (3,197) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and accrued unbilled utility revenue | (19,298) | (9,870) |
| Accounts payable and other current liabilities | (3,496) | 1,046 |
| Accrued groundwater extraction charges, purchased water and power | 6,534 | 5,260 |
| Tax receivable and accrued taxes | (6,972) | 6,311 |
| Postretirement benefits | 2,838 | 2,526 |
| Regulatory assets and liability related to balancing and memorandum accounts | 9,239 | 12,068 |
| Other changes, net | (1,018) | (2,454) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 76,429 | 72,344 |
| INVESTING ACTIVITIES: | | |
| Additions to utility plant: | | |
| Company-funded | (102,813) | (63,126) |
| Contributions in aid of construction | (5,759) | (8,400) |
| Additions to real estate investments | (254) | (570) |
| Payments for business/asset acquisition and water rights | (1,063) | (991) |
| Payments to retire utility plant, net of salvage | (1,418) | (3,146) |
| Proceeds from sale of real estate investments | 124 | 1,925 |
| Proceeds from sale of California Water Service Group stock | 4,510 | — |
| Deposit for long-lived asset held-for-sale | 20,000 | — |
| NET CASH USED IN INVESTING ACTIVITIES | (86,673) | (74,308) |
| FINANCING ACTIVITIES: | | |
| Borrowings on line of credit | 53,875 | 49,400 |
| Repayments of line of credit | (24,575) | (41,400) |
| Repayments of long-term borrowings | (5,143) | (435) |
| Debt issuance costs | (335) | — |
| Dividends paid | (12,419) | (11,910) |
| Employee stock purchase plan proceeds | 954 | 895 |
| Tax benefits realized from restricted and deferred stock units | 203 | 634 |
| Receipts of advances and contributions in aid of construction | 12,032 | 10,516 |
| Refunds of advances for construction | (1,924) | (1,864) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 22,668 | 5,836 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 12,424 | 3,872 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 5,239 | 2,399 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$17,663 | 6,271 |

Edgar Filing: SJW CORP - Form 10-Q

Cash paid during the period for:

| | | |
|---|----------|--------|
| Interest | \$18,324 | 18,218 |
| Income taxes | 18,072 | 3,721 |
| Supplemental disclosure of non-cash activities: | | |
| Increase in accrued payables for construction costs capitalized | 10,349 | 9,225 |
| Utility property installed by developers | 5,063 | 499 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

5

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(in thousands, except share and per share data)

Note 1. General

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the results for the interim periods.

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 2015 Annual Report on Form 10-K should be read with the accompanying unaudited condensed consolidated financial statements.

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, "Consolidation" which modifies the evaluation of whether limited partnerships and similar legal entities are variable or voting interest entities, eliminates the presumption that the general partner should consolidate a limited partnership, modifies the consolidation analysis for reporting entities that are involved in variable interest entities, particularly those that have fee arrangements and related party relationships, and provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that operate as registered money market funds. ASU 2015-02 became effective for SJW Corp. in the first quarter of 2016. The adoption of ASU 2015-02 did not have a material impact on our 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.

In response to the ongoing drought in California, on November 13, 2015, Governor Edmund Brown Jr. issued Executive Order B-36-15 to bolster the state's drought response. On November 24, 2015, the Santa Clara Valley Water District ("SCVWD") extended their call for 30% conservation and restrictions on outdoor watering of ornamental landscapes two days a week through June 30, 2016. On February 2, 2016, the State Water Board adopted an extended and revised emergency regulation to ensure that urban water conservation continues through October 2016. On May 9, 2016, Governor Brown issued an executive order to build on temporary statewide emergency water restrictions and to establish longer term water conservation measures, including permanent monthly water use reporting, new permanent water use standards in California communities and bans on clearly wasteful practices. On May 18, 2016, the State Water Board adopted a new approach to water conservation regulation and replaced its prior percentage reduction-based water conservation standard with a new approach designed to ensure at least a three year supply of available water based on local conditions. On June 14, 2016, the SCVWD reduced its conservation target from 30% to 20% and also increased the number of outdoor watering days from two to three effective July 1, 2016 through January 31, 2017.

Effective June 15, 2015, San Jose Water Company was authorized by the California Public Utilities Commission ("CPUC") to activate Stage 3 of Tariff Rule 14.1 which is a water shortage contingency plan with mandatory water usage reductions and drought surcharges resulting from usage above customer allocations. Tariff Rule 14.1 focuses primarily on restrictions of outdoor water use which accounts for 50% of a typical customer's water usage. On June 24, 2016, San Jose Water Company filed with the CPUC to amend its water shortage contingency plan with mandatory water usage reductions and drought surcharges to reflect the SCVWD's changes. This request was approved by the CPUC with an effective date of July 1, 2016. The drought surcharges are not recorded as revenue. Rather, they are recorded in a regulatory liability account which has been authorized by the CPUC to track lost revenues from conservation. The amount recorded in the surcharge account is being used to offset future rate increases

that would otherwise be necessary to recover lost revenue due to drought conservation efforts. As of September 30, 2016, San Jose Water Company has a remaining balance of approximately \$6,320 in the drought surcharge account to offset future rate increases related to drought conservation efforts. San Jose Water Company is continually working to remain in compliance with the various drought rules and regulations and is also working with local governments as well as the SCVWD to communicate consistent messages to the public about use restrictions and related matters associated with the ongoing drought.

Effective March 31, 2014, San Jose Water Company received approval from the CPUC to institute a Mandatory Conservation Revenue Adjustment Memorandum Account. This account was subsequently replaced with a Water Conservation Memorandum Account ("WCMA"). The WCMA allows San Jose Water Company to track lost revenue associated with

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

September 30, 2016

(in thousands, except share and per share data)

reduced sales due to the ongoing drought and the associated calls for water use reduction from the SCVWD. San Jose Water Company records the lost revenue captured in the WCMA regulatory accounts once the revenue recognition requirements of FASB ASU Topic 980 - "Regulated Operations," subtopic 605-25 are met. For further discussion, please see Note 8 and Note 9.

Basic earnings per share is calculated using income available to common shareholders, divided by the weighted average number of shares outstanding during the period. 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 deferred restricted common stock awards under SJW Corp.'s Long-Term Incentive Plan (as amended, the "Incentive Plan") and shares potentially issuable under the 2014 Employee Stock Purchase Plan ("ESPP"). For the three months ended September 30, 2016 and 2015, 714 and 380 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively. For the nine months ended September 30, 2016 and 2015, 4,801 and 1,819 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively.

A portion of depreciation expense is allocated to administrative and general expense. For the three months ended September 30, 2016 and 2015, the amounts allocated to administrative and general expense were \$416 and \$400, respectively. For the nine months ended September 30, 2016 and 2015, the amounts allocated to administrative and general expense were \$1,251 and \$1,191, respectively.

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. As of September 30, 2016, the remaining number of shares available under the Incentive Plan was 993,954, and an additional 229,972 shares were issuable under outstanding restricted stock units and deferred restricted stock units. In addition, shares are issued to employees under the company's ESPP.

Stock compensation costs charged to income are 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 were recorded to additional paid-in capital and common stock, by award type, are presented below for the three and nine months ended September 30, 2016 and 2015.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|------|---------------------------------|------|
| | 2016 | 2015 | 2016 | 2015 |
| Adjustments to additional paid-in capital and common stock for: | | | | |
| Compensation costs charged to income: | | | | |
| ESPP | \$ 89 | 82 | \$ 168 | 158 |

Edgar Filing: SJW CORP - Form 10-Q

| | | | | |
|--|--------|-----|----------|-------|
| Restricted stock and deferred restricted stock | 375 | 365 | 1,148 | 1,050 |
| Total compensation costs charged to income | \$ 464 | 447 | \$ 1,316 | 1,208 |
| Excess tax benefits realized from stock issuance: | | | | |
| Restricted stock and deferred restricted stock | \$ 1 | — | \$ 203 | 634 |
| Total excess tax benefits realized from stock issuance | \$ 1 | — | \$ 203 | 634 |
| Proceeds from ESPP and similar instruments: | | | | |
| ESPP | \$ 503 | 462 | \$ 954 | 895 |
| Total proceeds from the ESPP and similar instruments | \$ 503 | 462 | \$ 954 | 895 |

7

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

September 30, 2016

(in thousands, except share and per share data)

Stock, Restricted Stock and Deferred Restricted Stock

On January 4, 2016, service based restricted stock units covering an aggregate of 17,835 shares of common stock of SJW Corp. were granted to certain officers of SJW Corp. and its subsidiaries. The units vest in three equal successive installments upon completion of each year of service with no dividend equivalent rights. Share-based compensation expense of \$27.02 per unit which is based on the award grant date fair value is being recognized over the service period beginning in 2016.

On January 26, 2016, certain officers of SJW Corp. were granted performance-based restricted stock units covering an aggregate target number of SJW Corp.'s shares of common stock equal to 12,473 that will vest based on the actual attainment of specified performance goals measured for the 2016 calendar year and continued service through December 31, 2016. The number of shares issuable under the awards, ranging between 0% to 150% of the target number of shares, is based on the level of actual attainment of specified performance goals. The units do not include dividend equivalent rights. The awards have no market conditions and the share-based compensation expense of \$29.46 per unit which is based on the award grant date fair value is being recognized assuming the performance goals will be attained. As of September 30, 2016, management believes that the performance goals will be met.

On April 27, 2016, restricted stock units covering an aggregate of 7,656 shares of common stock of SJW Corp. were granted to the non-employee board members of SJW Corp. The units vest upon continuous board service through the day immediately preceding the date of the next annual shareholder meeting with no dividend equivalent rights. Share-based compensation expense of \$35.79 per unit which is based on the award grant date fair value is being recognized over the service period beginning in 2016.

As of September 30, 2016, the total unrecognized compensation costs related to restricted and deferred restricted stock plans was \$1,277. This cost is expected to be recognized over a remaining weighted average period of 0.85 years.

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 400,000 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 \$51 and \$139 for the three and nine months ended September 30, 2016, respectively, and \$38 and \$120 for the three and nine months ended September 30, 2015, respectively, related to the ESPP.

The total unrecognized compensation costs related to the semi-annual offering period that ends January 31, 2017 for the ESPP is approximately \$74. This cost is expected to be recognized during the fourth quarter of 2016 and first quarter of 2017.

Note 3. Real Estate Investments

The major components of real estate investments as of September 30, 2016 and December 31, 2015 are as follows:

| | September 30, December 31, | |
|---|----------------------------|--------|
| | 2016 | 2015 |
| Land | \$ 17,297 | 17,297 |
| Buildings and improvements | 44,681 | 57,015 |
| Intangibles | 149 | 329 |
| Subtotal | 62,127 | 74,641 |
| Less: accumulated depreciation and amortization | 11,412 | 13,207 |
| Total | \$ 50,715 | 61,434 |

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

In 2015, SJW Land Company was notified by the Arizona Department of Transportation (“ADOT”) that in order to achieve their goals of developing a new freeway extension, they, in conjunction with the Federal Highway Commission, would be exercising their powers of eminent domain for SJW Land Company's warehouse building located in Phoenix, Arizona. SJW Land Company reached a settlement with ADOT of \$20,000 on the property value and received the payment in September

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

September 30, 2016

(in thousands, except share and per share data)

2016 which was recorded in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2016 as a deposit, long-lived asset held-for-sale. Title to the property transferred to ADOT on October 13, 2016 upon the recording of the court's Final Order of Condemnation. SJW Corp. expects to record a gain, net of tax and expenses, on the property condemnation of approximately \$5,800 in the fourth quarter 2016. The company has reclassified the Arizona property as held-for-sale in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2016. The mortgage loan for the Arizona warehouse building was due on July 1, 2016. SJW Land Company paid off the remaining loan balance of \$2,938 on June 30, 2016.

The Arizona warehouse building is included in SJW Corp.'s "Real Estate Services" reportable segment as disclosed in Note 5. Prior to reclassification of the property as held-for-sale, depreciation expense on the building was \$0 and \$135 for the three and nine months ended September 30, 2016. The following represents the major components of the Arizona warehouse building recorded in long-lived assets held-for-sale on SJW Corp.'s condensed consolidated balance sheets as of September 30, 2016:

| | |
|---|-----------------------|
| | September 30, 2016 |
| Land | \$ 2,064 |
| Buildings and improvements | 10,563 |
| Subtotal | 12,627 |
| Less: accumulated depreciation and amortization | 2,720 |
| Total | \$ 9,907 |

On August 14, 2015, San Jose Water Company sold five nonutility properties located in San Jose, California for \$2,015. SJW Corp. recognized a pre-tax gain on the sale of real estate investments of \$1,886, after selling expenses of \$91.

Note 4. Defined Benefit Plan

San Jose Water Company sponsors a noncontributory defined benefit pension plan for its eligible employees. Employees hired before March 31, 2008 are entitled to receive retirement benefits using a formula based on the employee's three highest years of compensation (whether or not consecutive). For employees hired on or after March 31, 2008, benefits are determined using a cash balance formula based on compensation credits and interest credits for each employee. Officers hired before March 31, 2008 are eligible to receive additional retirement benefits under the Executive Supplemental Retirement Plan, and officers hired on or after March 31, 2008 are eligible to receive additional retirement benefits under the Cash Balance Executive Supplemental Retirement Plan. Both plans are non-qualified plans in which only officers and other designated members of management may participate. San Jose Water Company also provides health care and life insurance benefits for retired employees under the San Jose Water Company Social Welfare Plan. The components of net periodic benefit costs for San Jose Water Company's pension plan, its Executive Supplemental Retirement Plan, Cash Balance Executive Supplemental Retirement Plan and Social Welfare Plan for the three and nine months ended September 30, 2016 and 2015 are as follows:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|---------------------------|--|----------|---|----------|
| Service cost | \$ 1,244 | 1,363 | \$ 3,731 | 4,089 |
| Interest cost | 1,871 | 1,711 | 5,613 | 5,134 |
| Other cost | 1,104 | 1,192 | 3,313 | 3,575 |
| Expected return on assets | (1,894) | (1,817) | (5,683) | (5,450) |

\$2,325 2,449 \$6,974 7,348

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

September 30, 2016

(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, 2016 and December 31, 2015:

| | | Fair Value Measurements at September 30, 2016 | | | |
|---------------------------|--|---|--|---|---|
| Asset Category | Benchmark | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents | | \$5,530 | \$ 5,530 | \$ — | \$ — |
| Actively Managed (a): | | | | | |
| All Cap Equity | Russell 3000 Value | 4,883 | 4,859 | 24 | — |
| U.S. Large Cap Equity | Russell 1000, Russell 1000 Growth, Russell 1000 Value | 38,987 | 38,987 | — | — |
| U.S. Mid Cap Equity | Russell Mid Cap, Russell Mid Cap Growth, Russell Mid Cap Value | 6,765 | 6,765 | — | — |
| U.S. Small Cap Equity | Russell 2000, Russell 2000 Growth, Russell 2000 Value | 5,881 | 5,881 | — | — |
| Non-U.S. Large Cap Equity | MSCI EAFE | 4,939 | 4,939 | — | — |
| REIT | NAREIT - Equity REIT'S | 5,853 | — | 5,853 | — |
| Fixed Income (b) | (b) | 42,087 | — | 42,087 | — |
| Total | | \$114,925 | \$ 66,961 | \$ 47,964 | \$ — |

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 and cash 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) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays 1-5 Year

Government/Credit, Barclays Intermediate Government/Credit, and Merrill Lynch Preferred Stock Fixed Rate.

| | | Fair Value Measurements at December 31, 2015 | | | |
|---------------------------|-----------|--|--|---|---|
| Asset Category | Benchmark | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents | | \$9,500 | \$ 9,500 | \$ — | \$ — |
| Actively Managed (a): | | | | | |

Edgar Filing: SJW CORP - Form 10-Q

| | | | | | |
|---------------------------|--|------------|-----------|-----------|------|
| All Cap Equity | Russell 3000 Value | 4,067 | 4,041 | 26 | — |
| U.S. Large Cap Equity | Russell 1000, Russell 1000 Growth, Russell 1000 Value | 36,010 | 36,010 | — | — |
| U.S. Mid Cap Equity | Russell Mid Cap, Russell Mid Cap Growth, Russell Mid Cap Value | 5,886 | 5,886 | — | — |
| U.S. Small Cap Equity | Russell 2000, Russell 2000 Growth, Russell 2000 Value | 5,188 | 5,188 | — | — |
| Non-U.S. Large Cap Equity | MSCI EAFE | 4,804 | 4,804 | — | — |
| REIT | NAREIT - Equity REIT'S | 5,346 | — | 5,346 | — |
| Fixed Income (b) | (b) | 38,614 | — | 38,614 | — |
| Total | | \$ 109,415 | \$ 65,429 | \$ 43,986 | \$ — |

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 and cash 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) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays 1-5 Year Government/Credit, Barclays Intermediate Government/Credit, and Merrill Lynch Preferred Stock Fixed Rate.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

September 30, 2016

(in thousands, except share and per share data)

In 2016, San Jose Water Company expects to make required and discretionary cash contributions of up to \$8,613 to the pension plans and Social Welfare Plan. For the three and nine months ended September 30, 2016, \$2,173 and \$3,553, respectively, has been contributed to the pension plans and Social Welfare Plan.

Note 5. Segment and Non-Tariffed Business Reporting

SJW Corp. is a holding company with five subsidiaries: (i) San Jose Water Company, a water utility which operates both regulated and non-tariffed businesses, (ii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operate commercial building rentals, (iii) SJWTX, Inc. which is doing business as Canyon Lake Water Service Company (“CLWSC”), a regulated water utility located in Canyon Lake, Texas, and its consolidated non-tariffed variable interest entity, Acequia Water Supply Corporation, (iv) Texas Water Alliance Limited, a non-tariffed water utility operation which has acquired permits and leases necessary to develop a water supply project in Texas, and (v) SJW Group, Inc., a Delaware corporation formed in March 2015 for the sole purpose of effectuating a change in the state of incorporation of SJW Corp. from California to Delaware. The CPUC and Public Utilities Commission of Texas (“PUCT”) issued a decision authorizing the reincorporation on May 26, 2016 and March 24, 2016, respectively. The reincorporation is expected to become effective in the fourth quarter of 2016, subject to the completion of certain legal formalities.

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, CLWSC, 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 includes the Chairman, President and Chief Executive Officer, and his senior staff. The senior staff reviews financial information presented on a consolidated basis that is accompanied by disaggregated information about operating revenue, net income and total assets, by subsidiaries.

The tables below set forth information relating to SJW Corp.'s reportable segments and distribution of regulated and non-tariffed 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, 2016

| | Water Utility Services | | Real Estate Services | All Other* | SJW Corp. | | Total |
|--|------------------------|--------------|----------------------|--------------|-----------|--------------|-----------|
| | Regulated | Non-tariffed | Non-tariffed | Non-tariffed | Regulated | Non-tariffed | |
| Operating revenue | \$108,502 | 2,056 | 1,786 | — | 108,502 | 3,842 | 112,344 |
| Operating expense | 73,179 | 1,355 | 1,108 | 356 | 73,179 | 2,819 | 75,998 |
| Operating income (loss) | 35,323 | 701 | 678 | (356) | 35,323 | 1,023 | 36,346 |
| Net income (loss) | 19,216 | 330 | 239 | (826) | 19,216 | (257) | 18,959 |
| Depreciation and amortization | 10,678 | 116 | 325 | — | 10,678 | 441 | 11,119 |
| Senior note, mortgage and other interest expense | 4,648 | — | 216 | 562 | 4,648 | 778 | 5,426 |
| Income tax expense (benefit) in net income | 12,145 | 247 | 106 | 14 | 12,145 | 367 | 12,512 |
| Assets | \$1,359,419 | 18,092 | 75,909 | 921 | 1,359,419 | 94,922 | 1,454,341 |

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

September 30, 2016

(in thousands, except share and per share data)

| | For Three Months Ended September 30, 2015 | | | | | | | |
|-------------------------|---|--------------|----------------------|--------------|------------|-----------|--------------|--------|
| | Water Utility Services | | Real Estate Services | | All Other* | SJW Corp. | | Total |
| | Regulated | Non-tariffed | Non-tariffed | Non-tariffed | | Regulated | Non-tariffed | |
| Operating revenue | \$79,437 | 1,766 | 1,752 | — | | 79,437 | 3,518 | 82,955 |
| Operating expense | 61,714 | 1,642 | 1,050 | 289 | | 61,714 | 2,981 | 64,695 |
| Operating income (loss) | 17,723 | 124 | 702 | (289) |) | 17,723 | 537 | 18,260 |