

SJW CORP
Form 10-Q
May 07, 2014

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 March 31, 2014
Commission file number 1-8966
SJW Corp.
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

77-0066628
(I.R.S. Employer
Identification No.)

110 West Taylor Street, San Jose, CA
(Address of principal executive offices)
408-279-7800
(Registrant's telephone number, including area code)

95110
(Zip 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 April 25, 2014, there were 20,203,134 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 March 31,	
	2014	2013
OPERATING REVENUE	\$54,596	50,139
OPERATING EXPENSE:		
Production Expenses:		
Purchased water	9,730	10,119
Power	1,489	885
Groundwater extraction charges	9,448	4,590
Other production expenses	2,862	2,713
Total production expenses	23,529	18,307
Administrative and general	9,450	11,494
Maintenance	3,274	3,200
Property taxes and other non-income taxes	2,804	2,549
Depreciation and amortization	9,485	8,816
Total operating expense	48,542	44,366
OPERATING INCOME	6,054	5,773
OTHER (EXPENSE) INCOME:		
Interest on long-term debt	(4,542)	(4,645)
Mortgage and other interest expense	(328)	(377)
Gain on sale of real estate investment	—	1,063
Dividend income	63	62
Other, net	220	371
Income before income taxes	1,467	2,247
Provision for income taxes	561	930
NET INCOME	906	1,317
Other comprehensive income, net	198	354
COMPREHENSIVE INCOME	\$1,104	1,671
EARNINGS PER SHARE		
Basic	\$0.04	0.07
Diluted	\$0.04	0.07
DIVIDENDS PER SHARE	\$0.19	0.18
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	20,194,851	18,689,367
Diluted	20,385,271	18,888,909

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)

	March 31, 2014	December 31, 2013
ASSETS		
Utility plant:		
Land	\$10,844	10,418
Depreciable plant and equipment	1,275,335	1,254,586
Construction in progress	35,335	30,846
Intangible assets	19,148	18,341
	1,340,662	1,314,191
Less accumulated depreciation and amortization	424,786	415,453
	915,876	898,738
Real estate investments	73,783	78,477
Less accumulated depreciation and amortization	10,410	10,658
	63,373	67,819
CURRENT ASSETS:		
Cash and cash equivalents	3,118	2,299
Accounts receivable:		
Customers, net of allowances for uncollectible accounts	14,396	14,496
Income tax	1,075	1,661
Other	966	476
Accrued unbilled utility revenue	14,027	17,556
Long-lived assets held-for-sale	4,028	—
Materials and supplies	1,107	1,045
Prepaid expenses	2,035	2,119
	40,752	39,652
OTHER ASSETS:		
Investment in California Water Service Group	9,220	8,885
Unamortized debt issuance, broker and reacquisition costs	5,056	5,176
Regulatory assets, net	83,220	83,543
Other	6,438	6,173
	103,934	103,777
	\$1,123,935	1,109,986

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)

	March 31, 2014	December 31, 2013
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Shareholders' equity:		
Common stock, \$0.521 par value; authorized 36,000,000 shares; issued and outstanding 20,202,858 shares on March 31, 2014 and 20,169,211 on December 31, 2013	\$ 10,523	10,505
Additional paid-in capital	63,887	63,017
Retained earnings	241,351	244,266
Accumulated other comprehensive income	3,585	3,387
Total shareholders' equity	319,346	321,175
Long-term debt, less current portion	334,876	334,997
	654,222	656,172
CURRENT LIABILITIES:		
Line of credit	37,000	22,400
Current portion of long-term debt	537	554
Accrued groundwater extraction charges and purchased water	6,463	7,116
Purchased power	672	665
Accounts payable	10,702	12,587
Accrued interest	5,543	5,369
Accrued property taxes and other non-income taxes	2,458	1,618
Accrued payroll	3,249	3,198
Other current liabilities	5,302	5,688
	71,926	59,195
DEFERRED INCOME TAXES	140,820	140,736
UNAMORTIZED INVESTMENT TAX CREDITS	1,360	1,375
ADVANCES FOR CONSTRUCTION	71,551	70,043
CONTRIBUTIONS IN AID OF CONSTRUCTION	132,399	132,260
DEFERRED REVENUE	1,244	1,213
POSTRETIREMENT BENEFIT PLANS	45,003	43,496
OTHER NONCURRENT LIABILITIES	5,410	5,496
COMMITMENTS AND CONTINGENCIES	—	—
	\$ 1,123,935	1,109,986

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Three months ended March 31,	
	2014	2013
OPERATING ACTIVITIES:		
Net income	\$906	1,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,881	9,200
Deferred income taxes	113	100
Share-based compensation	244	347
Gain on sale of real estate investment	—	(1,063)
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	3,282	938
Accounts payable, purchased power and other current liabilities	(1,018)	) 94
Accrued groundwater extraction charges and purchased water	(653)	) 1,442
Tax receivable and accrued taxes	1,574	1,281
Other current asset and liabilities related to balancing and memorandum accounts	(95)	) (813)
Postretirement benefits	1,507	2,490
Regulatory asset related to balancing and memorandum accounts	411	(1,008)
Other changes, net	(191)	) 106
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,961	14,431
INVESTING ACTIVITIES:		
Additions to utility plant:		
Company-funded	(25,158)	) (17,380)
Contributions in aid of construction	(1,625)	) (2,698)
Additions to real estate investments	—	(1,194)
Payments for business/asset acquisition and water rights	(807)	) (1,087)
Cost to retire utility plant, net of salvage	(229)	) (878)
Proceeds from sale of real estate investment	—	8,831
NET CASH USED IN INVESTING ACTIVITIES	(27,819)	) (14,406)
FINANCING ACTIVITIES:		
Borrowings from line of credit	16,800	12,300
Repayments of line of credit	(2,200)	) (5,500)
Repayments of long-term borrowings	(138)	) (4,975)
Dividends paid	(3,788)	) (3,412)
Exercise of stock options and similar instruments	476	345
Tax benefits realized from share options exercised	59	30
Receipts of advances and contributions in aid of construction	1,897	1,240
Refunds of advances for construction	(429)	) (430)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	12,677	(402)
NET CHANGE IN CASH AND CASH EQUIVALENTS	819	(377)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,299	2,522
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$3,118	2,145
Cash paid (received) during the period for:		
Interest	\$5,066	5,073
Income taxes	(10)) 13

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Supplemental disclosure of non-cash activities:

(Decrease) increase in accrued payables for construction costs capitalized	(1,254) 1,963	
Utility property installed by developers	1,277	(111)
Increase in real estate investments due to accrued tenant improvements	—	921	
Accrued intangible assets and other charges related to water supply project in Texas	—	2,621	

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014

(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 2013 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 March 31, 2014 and 2013, 449 and 346 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 March 31, 2014 and 2013, the amounts allocated to administrative and general expense were \$396 and \$384, 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 March 31, 2014, the remaining shares available for issuance under the Incentive Plan were 1,119,807, and 315,914 shares were issuable upon the exercise of outstanding options, restricted stock units, and deferred restricted stock units. In addition, shares are issued to employees under the ESPP. SJW Corp. also had a Dividend Reinvestment and Stock Purchase Plan ("DRSPP") which allowed eligible participants to buy shares and reinvest cash dividends in SJW Corp. common stock. The DRSPP was terminated effective as of April 14, 2014.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

MARCH 31, 2014

(in thousands, except share and per share data)

The 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 months ended March 31, 2014 and 2013.

	Three months ended March 31,	
	2014	2013
Compensation costs charged to income:		
ESPP	\$72	58
Restricted stock and deferred restricted stock	172	289
Total compensation costs charged to income	\$244	347
Excess tax benefits realized from share options exercised and stock issuance:		
Stock options	\$59	—
Restricted stock and deferred restricted stock	—	30
Total excess tax benefits realized from share options exercised and stock issuance	\$59	30
Proceeds from the exercise of stock options and similar instruments:		
Stock options	\$44	—
DRSPP	26	17
ESPP	406	328
Total proceeds from the exercise of stock options and similar instruments	\$476	345

Stock Options

No options were granted during the three months ended March 31, 2014 and 2013.

As of March 31, 2014, there were no unrecognized compensation costs related to stock options.

Stock, Restricted Stock and Deferred Restricted Stock

On January 2, 2014, restricted stock units covering an aggregate of 21,790 shares of common stock of SJW Corp. were granted to certain executives 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 based on a grant date fair value of \$26.80 per unit is being recognized over the service period beginning in 2014.

On January 31, 2014, restricted stock units covering an aggregate of 3,845 shares of common stock of SJW Corp. were granted to an executive 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 based on a grant date fair value of \$26.39 per unit is being recognized over the service period beginning in 2014.

As of March 31, 2014, the total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to \$1,132. This cost is expected to be recognized over a remaining weighted-average period of 1.54 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 months ended March 31, 2014 and 2013, \$33 and \$34, respectively, related to DERs was recorded against retained earnings and was accrued as a liability.

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.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

MARCH 31, 2014

(in thousands, except share and per share data)

After considering estimated employee terminations or withdrawals from the plan before the purchase date, SJW Corp.'s recorded expenses were \$36 and \$21 for the three months ended March 31, 2014 and 2013, respectively, related to the ESPP.

The total unrecognized compensation costs related to the semi-annual offering period that ends July 31, 2014 for the ESPP is approximately \$49. This cost is expected to be recognized during the second and third quarters of 2014.

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 were reserved for issuance under the DRSP. For the three months ended March 31, 2014 and 2013, 875 and 619 shares, respectively, have been issued under the DRSP.

SJW Corp. terminated the DRSP effective as of April 14, 2014. On April 16, 2014, SJW Corp. filed a Post-Effective Amendment No. 1 to the registration statement on Form S-3 (file no. 333-172048) with the SEC to deregister the 2,993,744 remaining shares of SJW Corp.'s common stock that were available for issuance under the DRSP at the time of its termination.

Note 3. Real Estate Investments

The major components of real estate investments as of March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014	December 31, 2013
Land	\$17,297	18,892
Buildings and improvements	56,157	59,256
Intangibles	329	329
Subtotal	73,783	78,477
Less: accumulated depreciation and amortization	10,410	10,658
Total	\$63,373	67,819

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

During the first quarter 2014, management listed for sale its retail building located in El Paso, Texas. As a result, the Company reclassified the Texas property from held-and-used to held-for-sale at March 31, 2014. The Company determined that reclassifying the Texas property as held-for-sale represents a change in circumstances in the intended use of such facility and reviewed the asset for impairment. The Company performed a recoverability test of estimated sale proceeds less cost to sell from the property in accordance with FASB ASC Topic 360 - "Property, Plant and Equipment." As a result of this recoverability test, the Company determined that the carrying value was recoverable and no impairment exists.

The Texas retail building is included in the Company's "Real Estate Services" reportable segment as disclosed in Note 5. Prior to classification as held-for-sale, depreciation expense on the building was \$20 for the three months ended March 31, 2014. The following represents the major components of the Texas retail building recorded in long-lived assets held-for-sale on the Company's condensed consolidated balance sheets as of March 31, 2014:

	March 31, 2014
Land	\$1,595
Buildings and improvements	3,099
Subtotal	4,694
Less: accumulated depreciation and amortization	666
Total	\$4,028

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

MARCH 31, 2014

(in thousands, except share and per share data)

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 upon 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. The 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 months ended March 31, 2014 and 2013 are as follows:

	Three months ended March 31,	
	2014	2013
Service cost	\$1,059	1,239
Interest cost	1,651	1,475
Other cost	632	1,208
Expected return on assets	(1,667)	(1,380)
	\$1,675	2,542

The following tables summarize the fair values of plan assets by major categories as of March 31, 2014 and December 31, 2013:

Fair Value Measurements at March 31, 2014					
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		\$4,191	\$4,191	\$—	\$—
Actively Managed (a):					
All Cap Equity	Russell 3000 Value	2,533	2,510	23	—
U.S. Large Cap Equity	Russell 1000, Russell 1000 Growth, Russell 1000 Value	34,283	34,283	—	—
U.S. Mid Cap Equity	Russell Mid Cap, Russell Mid Cap Growth, Russell Mid Cap Value	5,627	5,627	—	—
U.S. Small Cap Equity	Russell 2000, Russell 2000 Growth, Russell 2000 Value	3,068	3,068	—	—
Non-U.S. Large Cap Equity	MSCI EAFE	5,005	5,005	—	—
REIT	NAREIT - Equity REIT'S	4,325	—	4,325	—

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Fixed Income (b)	(b)	36,528	—	36,528	—
Total		\$95,560	\$54,684	\$40,876	\$—

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) 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)

MARCH 31, 2014

(in thousands, except share and per share data)

Fair Value Measurements at December 31, 2013

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		\$9,127	\$9,127	\$—	\$—
Actively Managed (a):					
All Cap Equity	Russell 3000 Value	283	266	17	—
U.S. Large Cap Equity	Russell 1000, Russell 1000 Growth, Russell 1000 Value	32,286	32,286	—	—
U.S. Mid Cap Equity	Russell Mid Cap, Russell Mid Cap Growth, Russell Mid Cap Value	5,551	5,551	—	—
U.S. Small Cap Equity	Russell 2000, Russell 2000 Growth, Russell 2000 Value	3,236	3,236	—	—
Non-U.S. Large Cap Equity	MSCI EAFE	5,066	5,066	—	—
REIT	NAREIT - Equity REIT'S	3,913	—	3,913	—
Fixed Income (b)	(b)	35,891	—	35,891	—
Total		\$95,353	\$55,532	\$39,821	\$—

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) 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.

In 2014, San Jose Water Company expects to make required and discretionary cash contributions of up to \$7,800 to the pension plans and Social Welfare Plan. There have been no contributions to the pension plans and Social Welfare Plan for the three months ended March 31, 2014.

Note 5. Segment and Nonregulated Business Reporting

SJW Corp. is a holding company with four subsidiaries: (i) San Jose Water Company, a water utility which operates both regulated and nonregulated businesses, (ii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operate commercial building rentals, (iii) SJW TX, 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 Chairman, 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)

MARCH 31, 2014

(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 March 31, 2014						
	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
Operating revenue	\$51,626	1,228	1,742	—	51,626	2,970	54,596
Operating expense	46,463	872	1,022	185	46,463	2,079	48,542
Operating income (loss)	5,163	356	720	(185)	5,163	891	6,054
Net income (loss)	903	151	204	(352)	903	3	906
Depreciation and amortization	8,977	90	418	—	8,977	508	9,485
Senior note, mortgage and other interest expense	4,081	—	237	552	4,081	789	4,870
Income tax expense (benefit) in net income	552	124	153	(268)	552	9	561
Assets	\$1,027,073	16,965	70,710	9,187	1,027,073	96,862	1,123,935
	For Three Months Ended March 31, 2013						
	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
Operating revenue	\$47,798	1,086	1,255	—	47,798	2,341	50,139
Operating expense	41,625	1,682	810	249	41,625	2,741	44,366
Operating income (loss)	6,173	(596)	445	(249)	6,173	(400)	5,773
Net income (loss)	1,600	(508)	636	(411)	1,600	(283)	1,317
Depreciation and amortization	8,322	88	406	—	8,322	494	8,816
Senior note, mortgage and other interest expense	4,152	—	320	550	4,152	870	5,022
Income tax expense (benefit) in net income	922	(144)	460	(308)	922	8	930
Assets	\$1,004,441	16,171	69,492	8,587	1,004,441	94,250	1,098,691

* 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 January 24, 2014, San Jose Water Company entered into a note agreement with John Hancock Life Insurance Company (U.S.A.) and its affiliate (the “Purchaser”), pursuant to which San Jose Water Company agreed to sell an aggregate principal amount of \$50,000 of its 5.14% senior note, Series L to the Purchaser. The senior note is an unsecured obligation of San Jose Water Company, due on the date that is the 30th anniversary of the issuance of the senior note. Interest is payable semi-annually in arrears on March 1 and September 1 of each year, commencing March 1, 2015. The closing date is August 5, 2014, or such later date as the parties may mutually agree, but no later than October 3, 2014.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

MARCH 31, 2014

(in thousands, except share and per share data)

Note 7. Fair Value Measurement

The following instruments are not measured at fair value on the Company's condensed consolidated balance sheets as of March 31, 2014, but require disclosure of their fair values: cash and cash equivalents, accounts receivable and accounts payable. The estimated fair value of such instruments as of March 31, 2014 approximates their carrying value as reported on the condensed consolidated balance sheets. The fair value of such financial instruments are determined using the income approach based on the present value of estimated future cash flows. There have been no changes in our valuation technique during the three months ended March 31, 2014. The fair value of these instruments would be categorized as Level 2 in the fair value hierarchy, with the exception of cash and cash equivalents, which would be categorized as Level 1. The fair value of pension plan assets is discussed in Note 4.

The fair value of SJW Corp.'s long-term debt was approximately \$410,847 and \$395,684 as of March 31, 2014 and December 31, 2013, 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 \$335,413 and \$335,551 as of March 31, 2014 and December 31, 2013, respectively. The fair value of long-term debt would be categorized as Level 2 in the fair value hierarchy.

The following table summarizes the fair value of the Company's investment in California Water Service Group as of March 31, 2014 and December 31, 2013:

Fair Value Measurements at March 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total			

Assets:

Investment in California Water Service Group

\$9,220 9,220 — —

Fair Value Measurements at December 31, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total			

Assets:

Investment in California Water Service Group

\$8,885 8,885 — —

Note 8. Balancing and Memorandum Account Recovery Procedures

For California, the CPUC has established a balancing account mechanism for the purpose of tracking the under-collection or over-collection associated with expense changes and the revenue authorized by the CPUC to offset those expense changes. The Company also maintains memorandum accounts to track revenue impacts due to

catastrophic events, unforeseen water quality expenses related to new federal and state water quality standards, energy efficiency, cost of capital, any revenue requirement impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, and other approved activities or as directed by the CPUC. As of March 31, 2014, the total balance in San Jose Water Company's balancing and memorandum accounts combined, including interest, was a net under-collection of \$7,725.

Balancing and memorandum accounts are recognized in revenue by San Jose Water Company when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process. In assessing the probability criteria for balancing and memorandum accounts between general rate cases, the Company considers evidence that may exist prior to CPUC authorization that would satisfy FASB ASC Topic 980 - "Regulated

SJW CORP. AND SUBSIDIARIES

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(in thousands, except share and per share data)

Operations,” subtopic 340-25 recognition criteria. Such evidence may include regulatory rules and decisions, past practices, and other facts and circumstances that would indicate that recovery or refund is probable. When such evidence provides sufficient support for balance recognition, the balances are recorded in the Company's financial statements.

The Company met the recognition requirements for certain of its balancing and memorandum accounts and certain amounts subject to balancing and memorandum accounts and decreased revenue and regulatory assets totaling \$411 during the three months ended March 31, 2014, and recorded revenue and regulatory assets totaling \$1,885 during the three months ended March 31, 2013. All balancing accounts and memorandum-type accounts not included for recovery or refund in the current general rate case will 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.

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.

Note 10. Regulatory Rate Filings

On January 3, 2012, San Jose Water Company filed a general rate case application requesting rate increases of \$47,394, or 21.51% in 2013, \$12,963, or 4.87% in 2014, and \$34,797, or 12.59% in 2015. This general rate case filing also includes: (1) recovery of under-collected balancing account balances of \$2,599, (2) disbursement of over-collected memorandum account balances of \$650 and (3) implementation of a full revenue decoupling Water Revenue Adjustment Mechanism (“WRAM”) and associated Modified Cost Balancing Account (“MCBA”). If approved, the WRAM and the MCBA would de-couple San Jose Water Company's earnings from customer usage. Parties to the proceeding filed open briefs on July 20, 2012 and reply briefs on August 7, 2012. On September 26, 2012, San Jose Water Company filed a motion for interim rate relief so that if a decision was not reached by the end of 2012, San Jose Water Company would be allowed to adopt interim rates, effective January 1, 2013, until a decision is adopted. To date a decision has not been adopted and interim rates are currently in effect. Interim rates were set equal to fiscal year-end 2012 rates. Differences between interim rates and approved rates are tracked in a memorandum account and will be submitted for recovery or refund. A decision on this application is expected in the second quarter of 2014. On February 28, 2014, San Jose Water Company submitted Advice Letter No. 456. In this advice letter, San Jose Water Company notified the CPUC that San Jose Water Company was implementing conservation Tariff Rule 14.1. The CPUC's Rule 14.1 provides voluntary conservation measures for customers, focusing primarily on outdoor water use which accounts for 50% of a typical customer's water usage. In addition, San Jose Water Company requested the implementation of a Mandatory Conservation Memorandum Account (“MCMA”) to track all operational and administrative costs associated with the implementation of Rule 14.1 and implementation of a Mandatory Conservation Revenue Adjustment Memorandum Account (“MCRAMA”) to track any revenue shortfall associated with the implementation of the 20% conservation goal. The advice letter was approved on March 21, 2014 and the Rule 14.1 voluntary conservation measures, the MCMA, and MCRAMA all went into effect on March 31, 2014. On October 3, 2013, CLWSC filed a rate case with the TCEQ. The filing contained a request