

SJW CORP
Form 10-Q
November 06, 2008

**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
Commission file number

September 30, 2008
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 W. Taylor St., San Jose, CA
(Address of principal executive offices)

95110
(Zip Code)

408-279-7800

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year 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 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, 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:

Common shares outstanding as of October 13, 2008 are 18,426,502.

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)

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	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2008	2007	2008	2007
OPERATING REVENUE	\$ 69,507	\$ 64,847	\$ 170,818	\$ 158,999
OPERATING EXPENSE:				
Operation:				
Purchased water	16,390	16,760	37,562	39,373
Power	2,579	2,565	5,655	5,741
Groundwater extraction charges	11,845	10,222	26,678	22,343
Total production costs	30,814	29,547	69,895	67,457
Administrative and general	6,322	5,575	17,809	16,630
Other	4,343	3,724	12,095	10,973
Maintenance	3,296	2,819	9,612	8,606
Property taxes and other nonincome taxes	1,763	1,583	4,994	4,739
Depreciation and amortization	5,988	5,690	18,035	16,975
Income taxes	5,516	5,178	11,611	10,419
Total operating expense	58,042	54,116	144,051	135,799
OPERATING INCOME	11,465	10,731	26,767	23,200
OTHER (EXPENSE) INCOME:				
Interest on senior notes	(3,122)	(2,706)	(9,291)	(8,159)
Mortgage and other interest expense	(627)	(541)	(1,768)	(1,483)
Dividends	322	319	965	957
Other, net	219	208	580	1,024
NET INCOME	8,257	8,011	17,253	15,539
Other comprehensive income (loss):				
Unrealized income (loss) on investment	6,303	1,088	1,628	(2,113)
Less: income taxes related to other comprehensive income (loss)	(2,585)	(446)	(668)	866
Other comprehensive income (loss), net	3,718	642	960	(1,247)
COMPREHENSIVE INCOME	\$ 11,975	\$ 8,653	\$ 18,213	\$ 14,292
EARNINGS PER SHARE				
Basic	\$ 0.45	\$ 0.44	\$ 0.94	\$ 0.85
Diluted	\$ 0.44	\$ 0.43	\$ 0.93	\$ 0.84
DIVIDENDS PER SHARE	\$ 0.16	\$ 0.15	\$ 0.48	\$ 0.45
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	18,423,325	18,350,007	18,401,458	18,325,206
Diluted	18,618,780	18,561,631	18,602,557	18,539,587

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)

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	SEPTEMBER 30 2008	DECEMBER 31 2007
ASSETS		
Utility plant:		
Land	\$ 5,687	\$ 5,695
Depreciable plant and equipment	829,202	778,277
Construction in progress	15,655	24,298
Intangible assets	8,040	8,040
	858,584	816,310
Less accumulated depreciation and amortization	267,256	255,025
	591,328	561,285
Real estate investment	89,302	88,029
Less accumulated depreciation and amortization	5,092	3,834
	84,210	84,195
CURRENT ASSETS:		
Cash and cash equivalents	2,177	2,354
Accounts receivable:		
Customers, net of allowances for uncollectible accounts	15,425	10,390
Income tax		2,557
Other	1,709	1,222
Accrued unbilled utility revenue	20,251	12,654
Materials and supplies	857	782
Prepaid expenses	1,705	1,632
	42,124	31,591
OTHER ASSETS:		
Investment in California Water Service Group	42,348	40,720
Unamortized debt issuance and reacquisition costs	3,209	3,345
Regulatory assets	43,776	44,712
Other	1,942	1,478
	91,275	90,255
	\$ 808,937	\$ 767,326

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)

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	SEPTEMBER 30 2008	DECEMBER 31 2007
CAPITALIZATION AND LIABILITIES CAPITALIZATION:		
Shareholders' equity:		
Common stock, \$0.521 par value; authorized 36,000,000 shares; issued and outstanding 18,426,502 shares on September 30, 2008 and 18,360,952 in 2007	\$ 9,597	\$ 9,564
Additional paid-in capital	20,137	18,723
Retained earnings	203,547	195,331
Accumulated other comprehensive income	14,277	13,316
Total shareholders' equity	247,558	236,934
Long-term debt, less current portion	216,773	216,312
	464,331	453,246
CURRENT LIABILITIES:		
Line of credit	18,900	5,000
Current portion of long-term debt	758	622
Accrued groundwater extraction charges and purchased water	9,154	5,595
Purchased power	900	514
Accounts payable	8,426	9,268
Accrued interest	3,431	4,522
Accrued taxes	3,366	791
Accrued payroll	2,707	2,583
Other current liabilities	4,157	4,059
	51,799	32,954
DEFERRED INCOME TAXES	79,751	74,643
UNAMORTIZED INVESTMENT TAX CREDITS	1,690	1,735
ADVANCES FOR CONSTRUCTION	74,781	74,518
CONTRIBUTIONS IN AID OF CONSTRUCTION	107,591	100,649
DEFERRED REVENUE	1,250	1,313
POSTRETIREMENT BENEFIT PLANS	22,553	23,357
OTHER NONCURRENT LIABILITIES	5,191	4,911
COMMITMENTS AND CONTINGENCIES		
	\$ 808,937	\$ 767,326

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

(in thousands)

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	NINE MONTHS ENDED SEPTEMBER 30	
	2008	2007
OPERATING ACTIVITIES:		
Net income	\$ 17,253	\$ 15,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,035	16,975
Deferred income taxes	5,064	(2,902)
Share-based compensation	443	505
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	(13,119)	(11,581)
Accounts payable, purchased power and other current liabilities	60	(682)
Accrued groundwater extraction charges and purchased water	3,559	7,789
Accrued taxes	5,132	2,868
Accrued interest	(1,092)	(867)
Accrued payroll	123	(284)
Prepaid expenses and materials and supplies	(147)	(372)
Postretirement benefits	(743)	2,717
Other noncurrent assets and noncurrent liabilities	667	2,459
Other changes, net	326	1,291
NET CASH PROVIDED BY OPERATING ACTIVITIES	35,561	33,455
INVESTING ACTIVITIES:		
Additions to utility plant	(47,612)	(46,954)
Additions to nonutility property		(48,245)
Cost to retire utility plant, net of salvage	(1,204)	(893)
Sale proceeds from trust account		31,261
NET CASH USED IN INVESTING ACTIVITIES	(48,816)	(64,831)
FINANCING ACTIVITIES:		
Borrowings from line of credit	22,450	16,800
Repayments of line of credit	(8,550)	(24,800)
Long-term borrowings	1,069	33,500
Repayments of long-term borrowings	(472)	(519)
Dividends paid	(8,904)	(8,312)
Exercise of stock options and similar instruments	680	1,300
Tax benefits realized from share options exercised	324	543
Receipts of advances and contributions in aid of construction	8,177	12,935
Refunds of advances for construction	(1,696)	(1,632)
NET CASH PROVIDED BY FINANCING ACTIVITIES	13,078	29,815
NET CHANGE IN CASH AND CASH EQUIVALENTS	(177)	(1,561)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,354	3,788
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,177	\$ 2,227
Cash paid during the period for:		
Interest	\$ 12,550	11,074
Income taxes	2,446	8,023
Supplemental disclosure of non-cash activities:		
Increase (decrease) in accrued payables for additions to utility plant	(467)	2,659
Decrease in nonutility property due to transfer to utility property		3,035
Increase in nonutility property due to transfer from utility property	2,386	
Amortization of debt issuance costs	140	136
Utility property installed by developers	3,034	

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

(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 Notes to Consolidated Financial Statements in SJW Corp.'s 2007 Annual Report on Form 10-K should be read with the accompanying condensed consolidated financial statements.

Water sales are seasonal in nature. The demand for water, especially by residential customers, is generally influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by residential 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 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. Diluted earnings per share is calculated using income available to the common shareholders divided by the weighted average number of common shares including both shares outstanding and shares potentially issued 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 issued under the Employee Stock Purchase Plan.

For the three months ended September 30, 2008 and 2007, the basic weighted average number of common shares was 18,423,325 and 18,350,007, respectively. For the nine months ended September 30, 2008 and 2007, the basic weighted average number of common shares was 18,401,458 and 18,325,206, respectively. For the three months ended September 30, 2008 and 2007, the diluted weighted average number of common shares was 18,618,780 and 18,561,631, respectively. For the nine months ended September 30, 2008 and 2007, the diluted weighted average number of common shares was 18,602,557 and 18,539,587, respectively. For the nine months ended September 30, 2008, 13,011 common stock units were excluded from the dilutive calculation because they were anti-dilutive.

Note 2. Long-Term Incentive Plan and Share-Based Payments

Common Shares

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On January 1, 2006, SJW Corp. adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), which requires the measurement and recognition of compensation expense based on the estimated fair value for all share-based payment awards.

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As of September 30, 2008, the Incentive Plan allows non-employee directors of SJW Corp. to receive awards, authorizes the plan administrator to grant stock appreciation rights, and lists the performance criteria for performance shares. In addition, the Incentive Plan allows SJW Corp. to provide employees, including officers, and non-employee directors, the opportunity to acquire an equity interest in SJW Corp. The types of awards included in the Incentive Plan are stock options, dividend units, performance shares, rights to acquire restricted stock and stock bonuses. In addition, shares are issued under the Employee Stock Purchase Plan (ESPP). The remaining shares available for issuance under the Incentive Plan are 1,308,948. As of September 30, 2008, 354,845 shares are issuable upon the exercise of outstanding options, restricted stock units and deferred stock units. The total compensation cost charged to income under the Incentive Plan for the three and nine months ended September 30, 2008 was \$151 and \$443, respectively, and for the three and nine months ended September 30, 2007, was \$133 and \$505, respectively.

SJW Corp. utilizes the Black-Scholes option-pricing model to determine the fair value of stock options and ESPP purchases under SFAS 123R. The Black-Scholes option-pricing model incorporates various subjective assumptions including expected volatility, expected term, expected dividend yield and interest rates. The expected volatility for both stock options and ESPP purchases is estimated by historical stock price volatility over the estimated expected term of SJW Corp. s share-based awards. The expected term of SJW Corp. s share-based awards are based on historical experience.

Stock Options

No options were granted during the nine months ending September 30, 2008 and 2007.

For the nine months ended September 30, 2008, after taking into consideration the relevant facts and circumstances, SJW Corp. does not project any foreseeable terminations which could lead to forfeiture of unvested options. SJW Corp. has recognized share-based compensation expense for the stock options granted under the Incentive Plan of \$14 and \$44 for the three and nine months ended September 30, 2008, respectively, and \$23 and \$82 for the three and nine months ended September 30, 2007, respectively. As of September 30, 2008, total unrecognized compensation costs related to stock options amounted to \$25. These costs are expected to be recognized over a weighted average period of 0.44 year.

SFAS 123R requires the cash flows resulting from the tax benefits for deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as cash from financing activities. For the three months ended September 30, 2008, no options were exercised. For the nine months ended September 30, 2008, total cash received on exercise of options amounted to \$71 and the excess tax benefits realized from stock options exercised amounted to \$19. For the three and nine months ended September 30, 2007, total cash received on exercise of options amounted to \$465 and \$1,054, respectively, and the excess tax benefits realized from stock options exercised amounted to \$162 and \$391, respectively.

Deferred Restricted Stock and Deferral Election Programs and Restricted Stock Awards

Under SJW Corp. s Amended and Restated Deferred Restricted Stock Program (the Deferred Restricted Stock Program), SJW Corp. granted deferred restricted stock units to non-employee Board members. This program was amended effective January 1, 2008. As a result of that amendment, no new awards of deferred restricted stock units will be made under the Deferred Restricted Stock Program with respect to Board service after December 31, 2007. In addition, SJW Corp. s Deferral Election Program (as amended, the Deferral Program) includes retainer fees and meeting fees earned for the calendar year 2007 to be deferred into deferred restricted stock units. Prior to 2007, only

retainer fees were allowed to be converted under the Deferral Program. The retainer fees and meeting fees are collectively referred to as the Annual Service Fees. For any post-2007 calendar year, the Annual Service Fees that are deferred will be credited as a dollar amount to a deferred election account, and will no longer be deferred into deferred restricted stock units.

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On January 2, 2008, 7,258 restricted stock units were granted to several executives of SJW Corp. These units will 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 \$31.32 per unit over the vesting period beginning in 2008.

On January 30, 2008, 1,041 restricted stock units were granted to an executive of SJWTX, Inc. under the Incentive Plan. These units will 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 \$26.35 per unit over the vesting period beginning in 2008.

On August 11, 2008, 1,851 restricted stock units were granted to an executive of SJW Corp. These units will vest in four equal successive installments upon completion of each year of service with no dividend equivalent rights. The restricted stock units were valued at a market price of \$27.01 per share at the date of grant. Share-based compensation expense is being recognized at grant date fair value of \$24.58 per unit over the vesting period beginning August 2008. The grant date fair value is the market price reduced by the present value of the expected dividend stream during the four year period.

On April 28, 2008 and May 9, 2008 a total of 34,512 shares of common stock were distributed to a retired member of SJW Corp.'s Board of Directors. Additionally, SJW Corp. paid cash in the amount of \$4 to settle the dividend equivalent rights earned for those shares with a lump-sum distribution. The excess tax benefits realized from the distribution of common stock to the retired member of the Board of Directors amounted to \$266.

On January 30, 2008, a total of 21,000 restricted and deferred restricted stock units were awarded to an executive of SJW Corp., which includes 7,000 performance-based restricted stock units that will convert into shares of SJW Corp.'s common stock upon vesting at the end of a three year period if specific performance goals set are attained. These units do not include dividend equivalent rights. The fair value of the performance-based restricted award was estimated using the fair value of SJW Corp.'s common stock with the effect of market conditions and no dividend yield on the date of grant, and assumes the performance goals will be attained. Share-based compensation expense is recognized at \$11.71 per unit over approximately 2.5 years. If such goals are not met and requisite service is not rendered, no compensation cost will be recognized and any recognized compensation cost will be reversed.

SJW Corp. has recognized an aggregate share-based compensation expense of \$137 and \$399 for the three and nine months ended September 30, 2008, respectively, and \$69 and \$242 for the three and nine months ended September 30, 2007, respectively, related to restricted and deferred restricted stock awards to employees. No share-based compensation expense was recognized for the three and nine months ended September 30, 2008, related to restricted and deferred restricted stock awards to non-employee Board members. SJW Corp. has recognized an aggregate share-based compensation expense of \$41 and \$181 for the three and nine months ended September 30, 2007, respectively, related to restricted and deferred restricted stock awards to non-employee Board members. As of September 30, 2008, the total unrecognized compensation costs were \$1,093. These costs are expected to be recognized over a weighted average period of 1.92 years.

For the three months ended September 30, 2008, no tax benefit was realized due to the fact that no stock was issued. For the nine months ended September 30, 2008, the tax benefit realized from restricted stock units and deferred stock units issuance amounted to \$305. For the three and nine months ended September 30, 2007, no tax benefit was realized due to the fact that no stock was issued.

Dividend Equivalent Rights

Under the Incentive Plan, 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 shares 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, 2008, \$41 and \$129, respectively, related to DERs were recorded against retained earnings and were accrued as a liability. For the three and nine months ending September 30, 2007, \$53 and \$171, respectively, related to DERs were recorded against retained earnings and were accrued as a liability.

SJW Corp.'s Deferred Restricted Stock and Deferral Election Programs for non-employee Board members were amended effective January 1, 2008, to allow the DERs with respect to the deferred shares to remain in effect only through December 31, 2017. Accordingly, the last DERs conversion into deferred restricted stock units will occur on the first business day in January 2018. Previously, no such time limitation was placed in the Deferral Election Program.

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of SJW Corp.'s common stock at 85% of the fair market 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 the estimated employee terminations or withdrawals from the plan before the purchase date, SJW Corp.'s related ESPP expenses were \$17 and \$60 for the three and nine months ended September 30, 2008, respectively, and \$13 and \$56 for the three and nine months ended September 30, 2007, respectively, related to the ESPP.

The total unrecognized compensation costs related to the semi-annual offering period that ends January 31, 2009, for the ESPP is approximately \$35. This cost is expected to be recognized during the fourth quarter of 2008 and the first quarter of 2009.

Note 3. Nonregulated Business

The regulated activities of SJW Corp. consist of its subsidiaries, San Jose Water Company, a public utility regulated by the California Public Utilities Commission (CPUC) that operates within a service area approved by the CPUC and Canyon Lake Water Service Company, which is regulated by the Texas Commission on Environmental Quality. The nonregulated businesses of SJW Corp. are comprised of operating the City of Cupertino Municipal Water System and lease operations of eight commercial buildings and properties of SJW Land Company. The following tables represent the distribution of the regulated and nonregulated business activities for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Regulated	Non Regulated	Total	Regulated	Non Regulated	Total
Revenue	\$ 66,370	\$ 3,137	\$ 69,507	\$ 61,743	\$ 3,104	\$ 64,847
Expenses	55,938	2,104	58,042	52,023	2,093	54,116
Operating income	\$ 10,432	\$ 1,033	\$ 11,465	\$ 9,720	\$ 1,011	\$ 10,731

	Nine Months Ended September 30 2008			Nine Months Ended September 30 2007		
	Regulated	Non Regulated	Total	Regulated	Non Regulated	Total
Revenue	\$ 162,161	\$				