

SJW CORP  
Form 10-Q  
August 06, 2010

**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 June 30, 2010

Commission file number 1-8966

**SJW Corp.**

(Exact name of registrant as specified in its charter)

<b>California</b> (State or other jurisdiction of incorporation or organization)	<b>77-0066628</b> (I.R.S. Employer Identification No.)
<b>110 West Taylor Street, San Jose, CA</b> (Address of principal executive offices)	<b>95110</b> (Zip Code)
<b>408-279-7800</b>	

(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

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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   
(Do not check if a smaller reporting  
company)

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 July 22, 2010, there were 18,528,554 shares of the registrant's Common Stock outstanding.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

SJW Corp. and Subsidiaries

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands, except share and per share data)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2010	2009	2010	2009
OPERATING REVENUE	\$ 54,128	58,194	\$ 94,539	98,215
OPERATING EXPENSE:				
Operation:				
Purchased water	11,335	12,601	17,154	20,390
Power	1,584	1,817	2,728	2,577
Groundwater extraction charges	6,238	9,480	11,233	14,532
Total production costs	19,157	23,898	31,115	37,499
Administrative and general	6,683	6,897	13,741	14,027
Other	4,524	4,547	8,992	8,524
Maintenance	3,289	3,216	6,065	6,132
Property taxes and other non-income taxes	2,060	2,392	3,763	4,682
Depreciation and amortization	7,070	6,238	14,181	12,789
Income taxes	3,101	2,975	3,783	3,076
Total operating expense	45,884	50,163	81,640	86,729
OPERATING INCOME	8,244	8,031	12,899	11,486
OTHER (EXPENSE) INCOME:				
Interest on senior notes	(3,636)	(3,488)	(7,258)	(6,747)
Mortgage and other interest expense	(569)	(500)	(1,069)	(1,029)
Dividends	327	325	654	649
Other, net	150	50	275	175
NET INCOME	4,516	4,418	5,501	4,534
Other comprehensive loss:				
Unrealized loss on investment	(2,101)	(5,522)	(1,232)	(10,549)
Less: income taxes related to other comprehensive loss	861	2,264	505	4,325
Other comprehensive loss, net	(1,240)	(3,258)	(727)	(6,224)
COMPREHENSIVE INCOME (LOSS)	\$ 3,276	1,160	\$ 4,774	(1,690)
EARNINGS PER SHARE				

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Basic	\$	0.24	0.24	\$	0.29	0.25
Diluted	\$	0.24	0.23	\$	0.29	0.24
DIVIDENDS PER SHARE	\$	0.17	0.17	\$	0.34	0.33
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>						
Basic		18,528,497	18,482,670		18,523,794	18,476,307
Diluted		18,740,662	18,670,057		18,731,104	18,664,299

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)

	JUNE 30, 2010	DECEMBER 31, 2009
<b>ASSETS</b>		
Utility plant:		
Land	\$ 8,563	8,558
Depreciable plant and equipment	946,512	913,071
Construction in progress	24,807	11,119
Intangible assets	13,092	11,278
	992,974	944,026
Less accumulated depreciation and amortization	309,914	298,921
	683,060	645,105
Real estate investment	88,000	88,000
Less accumulated depreciation and amortization	8,027	7,188
	79,973	80,812
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	3,495	1,416
Restricted cash	27,733	
Accounts receivable:		
Customers, net of allowances for uncollectible accounts	13,758	10,892
Other	577	677
Accrued unbilled utility revenue	16,577	12,435
Materials and supplies	988	994
Prepaid expenses	1,320	1,596
	64,448	28,010
<b>OTHER ASSETS:</b>		
Investment in California Water Service Group	39,268	40,500
Debt issuance costs and broker fees, net of accumulated amortization	3,783	3,098
Regulatory assets	78,274	78,525
Other	4,174	2,424
	125,499	124,547
	\$ 952,980	878,474

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)

	JUNE 30, 2010	DECEMBER 31, 2009
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION:</b>		
Shareholders' equity:		
Common stock, \$0.521 par value; authorized 36,000,000 shares; issued and outstanding 18,528,554 shares on June 30, 2010 and 18,499,602 on December 31, 2009	\$ 9,650	9,635
Additional paid-in capital	22,646	22,046
Retained earnings	207,028	207,888
Accumulated other comprehensive income	12,460	13,187
Total shareholders' equity	251,784	252,756
Long-term debt, less current portion	296,295	246,879
	548,079	499,635
<b>CURRENT LIABILITIES:</b>		
Line of credit	11,850	5,800
Current portion of long-term debt	1,108	1,081
Accrued groundwater extraction charges and purchased water	7,634	4,496
Purchased power	913	486
Accounts payable	17,965	6,562
Accrued interest	5,129	4,979
Accrued property taxes and other non-income taxes	725	1,481
Accrued payroll	3,479	2,412
Income tax payable	1,911	728
Other current liabilities	4,300	3,933
	55,014	31,958
DEFERRED INCOME TAXES	101,119	100,766
UNAMORTIZED INVESTMENT TAX CREDITS	1,585	1,615
ADVANCES FOR CONSTRUCTION	68,396	69,086
CONTRIBUTIONS IN AID OF CONSTRUCTION	122,026	121,420
DEFERRED REVENUE	1,117	1,179
POSTRETIREMENT BENEFIT PLANS	49,892	47,484
OTHER NONCURRENT LIABILITIES	5,752	5,331
COMMITMENTS AND CONTINGENCIES		
	\$ 952,980	878,474

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

## SJW Corp. and Subsidiaries

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 5,501	4,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,181	12,789
Deferred income taxes	614	4,514
Share-based compensation	423	446
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	(6,908)	(6,106)
Accounts payable, purchased power and other current liabilities	691	1,756
Accrued groundwater extraction charges and purchased water	3,138	2,856
Accrued taxes	449	(1,391)
Accrued interest	150	417
Accrued payroll	1,067	(14)
Postretirement benefits	2,689	2,218
Other changes, net	162	303
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>22,157</b>	<b>22,322</b>
<b>INVESTING ACTIVITIES:</b>		
Additions to utility plant:		
Company-funded	(38,507)	(22,163)
Contributions in aid of construction	(1,695)	(3,985)
Payments for business acquisition	(2,577)	(3,720)
Cost to retire utility plant, net of salvage	(196)	(125)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(42,975)</b>	<b>(29,993)</b>
<b>FINANCING ACTIVITIES:</b>		
Borrowings from line of credit	30,850	8,300
Repayments of line of credit	(24,800)	(23,700)
Long-term borrowings	22,267	30,000
Repayments of long-term borrowings	(391)	(369)
Debt issuance costs	(783)	
Dividends paid	(6,299)	(6,097)
Exercise of stock options and similar instruments	290	302
Tax benefits realized from share options exercised	4	80
Receipts of advances and contributions in aid of construction	2,769	1,582
Refunds of advances for construction	(1,010)	(1,062)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>22,897</b>	<b>9,036</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>2,079</b>	<b>1,365</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>1,416</b>	<b>3,406</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 3,495</b>	<b>4,771</b>

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Cash paid during the period for:		
Interest	\$ 8,491	7,523
Income taxes	1,442	191
Supplemental disclosure of non-cash activities:		
Change in accrued payables for additions to utility plant	11,636	3,514
Utility property installed by developers	117	1,153
Loan proceeds held as restricted cash	27,733	

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



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**SJW CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**(in thousands, except share and per share data)**

**Note 1. General**

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

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and in accordance with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the SEC ). The Notes to Consolidated Financial Statements in SJW Corp.'s 2009 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. 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 June 30, 2010 and 2009, 0 and 1,885 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively. For the six months ended June 30, 2010 and 2009, 2,433 and 3,780 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively.

**Note 2. Long-Term Incentive Plan and Share-Based Compensation**

**Common stock**

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.

As of June 30, 2010, the Incentive Plan allows SJW Corp. to provide employees, non-employee Board members or the Board of Directors, consultants, and other independent advisors who provide services to the company or any parent or subsidiary the opportunity to acquire an equity interest in SJW Corp. The types of awards included in the Incentive Plan are restricted stock awards, restricted stock units, performance shares, or other share-based awards. In addition, shares are issued under the ESPP. As of June 30, 2010, the remaining shares available for issuance under the Incentive Plan were 1,206,577, and 391,776 shares are issuable upon the exercise of outstanding options, restricted stock units, and deferred restricted stock units under the Incentive Plan.

The total compensation cost charged to income under the Incentive Plan for the three and six months ended June 30, 2010 was \$182 and \$423, respectively, and for the three and six months ended June 30, 2009 was \$208 and \$446, respectively. The compensation costs charged to income is recognized on a straight-line basis over the requisite service vesting 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 exercised, that are recorded to additional paid-in capital and common stock, by award type, are presented below for the six months ended June 30, 2010 and 2009.



## SJW CORP. AND SUBSIDIARIES

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

June 30, 2010

(in thousands, except share and per share data)

	Six months ended June 30,	
	2010	2009
<b>Compensation costs charged to income:</b>		
Stock options	\$	9
ESPP	46	44
Restricted stock and deferred restricted stock	377	393
<b>Total compensation costs charged to income</b>	<b>\$ 423</b>	<b>446</b>
<b>Excess tax benefits realized from share options exercised and stock issuance:</b>		
Stock options	\$ 4	3
Restricted stock and deferred restricted stock		77
<b>Total excess tax benefits realized from share options exercised and stock issuance</b>	<b>\$ 4</b>	<b>80</b>
<b>Proceeds from the exercise of stock options and similar instruments:</b>		
Stock options	\$ 32	29
ESPP	258	250
Restricted stock and deferred restricted stock		23
<b>Total proceeds from the exercise of stock options and similar instruments</b>	<b>\$ 290</b>	<b>302</b>

Stock Options

No options were granted during the three months ended June 30, 2010 and 2009.

As of June 30, 2010, there are no unrecognized compensation costs related to stock options as all costs have been recognized.

Restricted Stock and Deferred Restricted Stock Plans

On January 4, 2010, restricted stock units covering an aggregate of 14,389 shares of common stock of SJW Corp. were granted to several executives of SJW Corp. and its subsidiaries. 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 \$20.64 per unit over the vesting period beginning in 2010.

On January 26, 2010, market performance-vesting restricted stock units granted to a key executive of SJW Corp. on January 25, 2007 and covering 7,000 shares of common stock of SJW Corp. were cancelled because the market performance objective was not attained. However, since the requisite service over the three-year service period of the award was rendered even though the market condition was not achieved, compensation cost over the three-year requisite service period was not reversed.

On January 26, 2010, restricted stock units covering an aggregate of 49,850 shares of common stock of SJW Corp. were awarded to a key executive of SJW Corp. These units do not include dividend equivalent rights. Such units include market performance-vesting restricted units covering 37,850 shares of common stock of SJW Corp. which will be issued if the market performance objective is attained and the executive continues in the Company's service through the completion of the five-year performance period. Share-based compensation expense is recognized over five years at \$8.77 per unit. The remaining 12,000 restricted stock units are recognized over three years at \$20.02 per unit. The fair value of the market performance-vesting restricted stock units was estimated using the fair value of SJW Corp.'s common stock with the

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effect of market conditions and no dividend yield on the date of grant, and assumes the market performance goals will be attained.

On April 26, 2010, a total of 207 shares of common stock were distributed to a retired member of SJW Corp. s Board of Directors. There was no excess tax benefit realized from this stock issuance.

As of June 30, 2010, the total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to \$1,445. This cost is expected to be recognized over a weighted-average period of 1.98 years.

## SJW CORP. AND SUBSIDIARIES

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

June 30, 2010

(in thousands, except share and per share data)

Dividend Equivalent Rights

Under the Incentive Plan, certain holders of options, restricted stock, and deferred restricted stock awards may have the right to receive dividend equivalent rights ( DERs ) each time a dividend is paid on common stock after the grant date. Stock compensation on DERs is recognized as a liability and recorded against retained earnings on the date dividends are issued. For the three and six months ended June 30, 2010, \$31 and \$62, respectively, related to DERs were recorded against retained earnings and were accrued as a liability. For the three and six months ended June 30, 2009, \$30 and \$62, 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 Deferred Restricted Stock and Deferral Election Programs.

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 recorded expenses were \$24 and \$39 for the three and six months ended June 30, 2010, respectively, and \$22 and \$36 for the three and six months ended June 30, 2009, respectively, related to the ESPP.

The total unrecognized compensation costs related to the semi-annual offering period that ends July 31, 2010 for the ESPP is approximately \$8. This cost is expected to be recognized during the third quarter of 2010.

**Note 3. Real Estate Investments**

The major components of real estate investments as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010	December 31, 2009
Land	\$ 22,385	22,381
Buildings and improvements	65,384	65,388
Intangibles	231	231
Subtotal	88,000	88,000
Less: accumulated depreciation and amortization	8,027	7,188
Total	\$ 79,973	80,812

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



## SJW CORP. AND SUBSIDIARIES

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

June 30, 2010

(in thousands, except share and per share data)

**Note 4. Employee Benefit Plans**

The components of net periodic benefit costs for San Jose Water Company's pension plan, its Executive Supplemental Retirement Plan and other postretirement benefit plan for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	\$ 822	678	\$ 1,644	1,356
Interest cost	1,403	1,238	2,807	2,476
Other cost	712	642	1,423	1,284
Expected return on assets	(935)	(765)	(1,871)	(1,530)
	\$ 2,002	1,793	\$ 4,003	3,586

The following table summarizes the fair values of plan assets by major categories as required by FASB ASC Topic 715, as of June 30, 2010:

Asset Category	Benchmark	Total	Fair Value Measurements at June 30, 2010		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents		\$ 2,896	\$ 2,896	-	-
Actively Managed (a):					
U.S. Large Cap Equity	Russell 1000 Growth	3,293	3,293	-	-
U.S. Small Cap Equity	Russell 2000	1,249	1,249	-	-
U.S. Small Mid Cap Equity	Russell 2500	3,067	3,067	-	-
Non-U.S. Large Cap Equity	MSCI EAFE Net	2,234	2,234	-	-
Passive Index Fund ETFs (b):					
U.S. Large Cap Equity	S&P 500	7,361	7,361	-	-
U.S. Small Mid Cap Equity	Russell 2500	1,819	1,819	-	-
Emerging Market Equity	MSCI Emerging Markets Net	2,046	2,046	-	-
Non-U.S. Large Cap Equity	MSCI EAFE Net	2,322	2,322	-	-
REIT	Nareit Equity Reits	862	862	-	-
Fixed Income (c)	(c)	19,012	19,012	-	-
<b>Total</b>		<b>\$46,161</b>	<b>\$46,161</b>	<b>-</b>	<b>-</b>

The Plan has a target allocation of 60% invested in a diversified array of equity securities to provide long-term capital appreciation and 40% invested in a diversified array of fixed income securities to provide preservation of capital plus generation of income.

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- (a) Actively managed portfolio of securities with the goal to exceed the stated benchmark performance.
- (b) Open-ended fund of securities with the goal to track the stated benchmark performance.
- (c) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays Capital Aggregate Bond and Merrill Lynch High Yield Master II performance.

In 2010, San Jose Water Company is required by the Internal Revenue Service to make minimum contributions of \$2,870 and \$499 to the pension plan and other postretirement benefit plan, respectively. For the three and six months ended June 30, 2010, \$642 and \$1,159, respectively, has been contributed to the pension plan and other postretirement benefit plan.



## SJW CORP. AND SUBSIDIARIES

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

June 30, 2010

(in thousands, except share and per share data)

**Note 5. Segment and Nonregulated Business Reporting**

SJW Corp. is a holding company with four subsidiaries: (i) San Jose Water Company, a water utility operation with both regulated and nonregulated businesses, (ii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operates commercial building rentals ( Real Estate Services ), (iii) SJWTX, Inc. which is doing business as Canyon Lake Water Service Company, a regulated water utility located in Canyon Lake, Texas and (iv) Texas Water Alliance Limited, a nonregulated water utility operation which is undertaking activities that are necessary to develop a water supply project in Texas. In accordance with FASB ASC Topic 280 Segment Reporting, SJW Corp. has determined that it has two reportable business segments. The first segment is that of providing water utility and utility-related services to its customers through SJW Corp.'s subsidiaries, San Jose Water Company, Canyon Lake Water Service Company, and Texas Water Alliance Limited, together referred to as Water Utility Services. The second segment is property management and investment activity conducted by SJW Land Company, referred to as Real Estate Services.

SJW Corp.'s reportable segments have been determined based on information used by the chief operating decision maker. SJW Corp.'s chief operating decision maker is its President and Chief Executive Officer ( CEO ). The CEO reviews financial information presented on a consolidated basis that is accompanied by disaggregated information about operating revenue, net income and total assets, by subsidiaries.

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 June 30, 2010**

	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
Operating revenue	\$ 52,172	1,134	822		52,172	1,956	54,128
Operating expense	43,958	949	624	353	43,958	1,926	45,884
Operating income (loss)	8,214	185	198	(353)	8,214	30	8,244
Net income (loss)	5,225	172	(311)	(570)	5,225	(709)	4,516
Depreciation and amortization	6,563	87	420		6,563	507	7,070
Interest expense	3,762		443		3,762	443	4,205
Income tax expense (benefit) in operating income	3,402	121	(215)	(207)	3,402	(301)	3,101
Assets	\$ 822,391	9,440	81,816	39,333	822,391	130,589	952,980

**For Three Months Ended June 30, 2009**

	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
Operating revenue	\$ 56,099	1,247	848		56,099	2,095	58,194
Operating expense	47,700	1,023	1,054	386	47,700	2,463	50,163
Operating income (loss)	8,399	224	(206)	(386)	8,399	(368)	8,031
Net income (loss)	5,069	224	(674)	(201)	5,069	(651)	4,418
Depreciation and amortization	5,733	85	420		5,733	505	6,238
Interest expense	3,514		463	11	3,514	474	3,988
Income tax expense (benefit) in operating income	3,514	152	(497)	(194)	3,514	(539)	2,975

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Assets

\$ 740,253      5,384      82,977      41,741      740,253      130,102      870,355

## SJW CORP. AND SUBSIDIARIES

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

June 30, 2010

(in thousands, except share and per share data)

## For Six Months Ended June 30, 2010

	Water	Utility	Services	Real Estate Services	All Other*	SJW Corp.	Total
	Regulated	Non regulated	Non regulated	Non regulated	Non regulated	Non regulated	
Operating revenue	\$ 90,932	1,978	1,629			3,607	94,539
Operating expense	78,310	1,631	1,115	584		3,330	81,640
Operating income (loss)	12,622	347	514	(584)		277	12,899
Net income (loss)	6,198	333	(485)	(545)		(697)	5,501
Depreciation and amortization	13,169	173	839			1,012	14,181
Interest expense	7,443		884			884	8,327
Income tax expense (benefit) in operating income	4,211	232	(334)	(326)		(428)	3,783
Assets	\$ 822,391	9,440	81,816	39,333		130,589	952,980

## For Six Months Ended June 30, 2009

	Water	Utility	Services	Real Estate Services	All Other*	SJW Corp.	Total
	Regulated	Non regulated	Non regulated	Non regulated	Non regulated	Non regulated	
Operating revenue	\$ 93,974	2,043	2,198			4,241	98,215
Operating expense	82,320	1,680	1,987	742		4,409	86,729
Operating income (loss)	11,654	363	211	(742)		(168)	11,486
Net income (loss)	5,183	362	(746)	(265)		(649)	4,534
Depreciation and amortization	11,779	171	839			1,010	12,789
Interest expense	6,817		933	26		959	7,776
Income tax expense (benefit) in operating income	3,610	246	(543)	(237)		(534)	3,076
Assets	\$ 740,253	5,384	82,977	41,741		130,102	870,355

\* The All Other category includes 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 May 27, 2010, SJW Corp. and SJW Land Company entered into a credit agreement with Wells Fargo Bank, National Association (Wells Fargo), which provided an unsecured revolving credit facility in an aggregate amount of \$10,000. This credit agreement replaced the then existing credit facility between SJW Corp., SJW Land Company and Wells Fargo. In addition, San Jose Water Company and Wells Fargo entered into a credit agreement which provided an unsecured revolving credit facility in an aggregate amount of \$75,000. This credit agreement expanded and replaced the then existing credit facility between San Jose Water Company and Wells Fargo. The outstanding principal balance on both credit agreements shall bear interest either: (a) at a fluctuating rate per annum 1.00% below the prime rate, or (b) at a fixed rate per annum determined by Wells Fargo to be 1.375% above LIBOR. These two credit agreements will expire on June 1, 2012. San Jose Water Company's unsecured bank line of credit has the following affirmative covenants: (1) the funded debt cannot exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar-month period cannot be less than 225% of interest charges. As of June 30, 2010, San Jose Water Company's funded debt was 55% of total capitalization and the net income available for interest charges was 328% of interest charges. As of June 30, 2010, San Jose Water Company is in compliance with all covenants.

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On June 9, 2010, San Jose Water Company entered into a Bond Purchase Contract with Goldman, Sachs & Co., the Treasurer of the State of California and the California Pollution Control Financing Authority (the Authority ) for the placement of \$50,000 aggregate principal amount of 5.10% fixed rate California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project) Series 2010A with interest only payments until maturity, which is June 1, 2040 (the Bonds ).

## SJW CORP. AND SUBSIDIARIES

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

June 30, 2010

(in thousands, except share and per share data)

The Bonds were issued by the Authority on June 16, 2010 pursuant to the provisions of the California Pollution Control Financing Authority Act and an Indenture, dated as of June 1, 2010 (the Indenture), between the Authority and Wells Fargo, as trustee. The proceeds from the issuance of the Bonds will be loaned by the Authority to San Jose Water Company pursuant to a Loan Agreement, dated as of June 1, 2010 (the Loan Agreement), between the Authority and San Jose Water Company. The loan proceeds will be used by San Jose Water Company to: (1) finance certain costs of (i) improvements to the structures and facilities that are integral to the supply of water throughout the water supply system owned by San Jose Water Company (the Water System), (ii) improvements to the water distribution system, and (iii) the acquisition of equipment for the Water System, all in the current service areas of San Jose Water Company and to the extent they will prevent the pollution of drinking water or improve the quality of water or ensure the safe handling, recycling or disposal of materials that might otherwise be improperly disposed of; and (2) pay certain costs of issuance of the Bonds.

The Loan Agreement contains affirmative and negative covenants customary for a loan agreement relating to revenue bonds, including, among other things, complying with certain disclosure obligations and covenants relating to the tax exempt status of the interest on the Bonds and limitations and prohibitions relating to the transfer of the project funded by the loan proceeds and the assignment of the Loan Agreement. The Loan Agreement and the Indenture contain provisions that provide for the acceleration of the indebtedness upon the occurrence of a loan default event (as defined in the Loan Agreement) and an event of default (as defined in the Indenture).

The loan proceeds are held by the trustee and classified as restricted cash. When a capital expenditure is incurred by San Jose Water Company which is an approved use of funds as defined in the Loan Agreement, San Jose Water Company will seek the release of restricted cash from the trustee. Once the trustee approves the capital expenditure, they will transfer cash from the restricted cash account into San Jose Water Company's general account. As of June 30, 2010, the balance recorded in restricted cash was \$27,733 and unamortized debt issuance costs were \$782. For the three and six months ended June 30, 2010, \$21,489 has been released from restricted cash by the trustee.

**Note 7. Fair Value Measurement**

The following table summarizes the assets and liabilities measured at fair value on a recurring basis as required by FASB ASC Topic 820 Fair Value Measurements and Disclosures, as of June 30, 2010 and December 31, 2009:

	<b>Balance as of June 30, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Investment in California Water Service Group	\$ 39,268	\$ 39,268		
	<b>Balance as of December 31, 2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Investment in California Water Service Group	\$ 40,500	\$ 40,500		

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**SJW CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**June 30, 2010**

**(in thousands, except share and per share data)**

**Note 8. Balancing and Memorandum Account Recovery Procedures**

The California Public Utilities Commission ( CPUC ) issued San Jose Water Company s most recent general rate case decision in November 2009. As part of that decision, the over-collected balance in the Company s balancing account for expense offsets for the period January 1, 2005 to December 31, 2007 of approximately \$1,696 has been reviewed and authorized for inclusion in customer rates as a 12-month customer surcredit.

As of June 30, 2010 and December 31, 2009, the balance in San Jose Water Company s remaining balancing accounts for expense offsets was an under-collection of \$843 and over-collection of \$1,062, respectively, including interest. These balancing accounts are expected to be reviewed for inclusion in customer rates by the CPUC as part of San Jose Water Company s next general rate case.

On June 2, 2010, San Jose Water Company filed an advice letter with the CPUC requesting authorization to increase revenues by \$5,740 or approximately 2.61%. This increase is intended to recover the accumulated balance in the Mandatory Conservation Revenue Adjustment Memorandum Account ( MCRAM ), which covered the period from August 3, 2009 to May 1, 2010. The CPUC authorized San Jose Water Company to establish a MCRAM to track the revenue impact of mandatory conservation upon San Jose Water Company s quantity revenue resulting from mandatory conservation instituted by Santa Clara Valley Water District. As directed by the CPUC s Water Division, any revenue increase would be recovered via a surcharge on the existing quantity rate for a period of twelve months following final approval by the CPUC. All revenue would be recognized immediately after final approval by the CPUC.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(in thousands, except share and per share data)**

The information in this Item 2 should be read in conjunction with the financial information and the notes thereto included in Item 1 of this Form 10-Q and the consolidated financial statements and notes thereto and the related Management's Discussion and Analysis of Financial Condition and Results of Operations contained in SJW Corp.'s Annual Report on Form 10-K for the year ended December 31, 2009.

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

**General:**

SJW Corp. is a holding company with four subsidiaries.

San Jose Water Company, a wholly owned subsidiary of SJW Corp., is a public utility in the business of providing water service to approximately 225,000 connections that serve a population of approximately one million people in an area comprising approximately 138 square miles in the metropolitan San Jose, California area.

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

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

San Jose Water Company also has approximately 700 acres of nonutility property which has been identified as no longer used and useful in providing utility services. Approximately 15 acres of the nonutility property are developable and located in the vicinity of the San Jose metropolitan area. The remaining properties are located in the hillside area adjacent to San Jose Water Company's watershed properties.

SJW Land Company, a wholly owned subsidiary of SJW Corp., owned the following real properties as of June 30, 2010:

Description	Location	Acreage	Square Footage	Percentage as of June 30, 2010 of SJW Land Company	
				Revenue	Expense
2 Commercial buildings	San Jose, California	2	28,000	28%	15%
Warehouse building	Windsor, Connecticut	17	170,000	24%	13%
Warehouse building	Orlando, Florida	8	147,000	13%	7%
Retail building	El Paso, Texas	2	14,000	9%	2%
Warehouse building	Phoenix, Arizona	11	176,000	26%	12%
Warehouse building	Knoxville, Tennessee	29	346,000	N/A	11%
Commercial building	Knoxville, Tennessee	15	135,000	N/A	39%
Undeveloped land	Knoxville, Tennessee	10	N/A	N/A	1%

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Undeveloped land	San Jose, California	5	N/A	N/A	N/A
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The California properties include a 70% limited partnership interest in 444 West Santa Clara Street, L.P. The limited partnership has been determined to be a variable interest entity within the scope of FASB ASC Topic 810 Consolidation with SJW Land Company as the primary beneficiary, and as a result, it has been consolidated with SJW Land Company.

SJWTX, Inc., a wholly owned subsidiary of SJW Corp., doing business as Canyon Lake Water Service Company ( CLWSC ), is a public utility in the business of providing water service to approximately 9,200 connections that serve approximately 36,000 people. CLWSC s service area comprises more than 237 square miles in western Comal County and southern Blanco County in the growing region between San Antonio and Austin, Texas.

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

In addition, SJW Corp. also owns 1,099,952 shares of common stock of California Water Service Group, which represents approximately 5% of that company s outstanding shares of common stock as of June 30, 2010.

**Business Strategy:**

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

- (1) Regional regulated water utility operations.
- (2) Regional nonregulated water utility related services provided in accordance with the guidelines established by the CPUC.
- (3) Out-of-region water and utility related services, primarily in the Western United States.
- (4) Real estate investment activities in SJW Land Company.

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

**Critical Accounting Policies:**

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

**Revenue Recognition**

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

Metered revenue of the Water Utility Services includes billing to customers based on meter readings plus an estimate of water used between the customers last meter reading and the end of the accounting period. The Water Utility Services reads the majority of its customers meters on a bi-monthly basis and records its revenue based on its meter reading results. Unbilled revenue from the last meter reading date to the end of the accounting period is estimated based on the most recent usage patterns, production records and the effective tariff rates. Actual results could

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differ from those estimates, which may result in an adjustment to the operating revenue in the period which the revision to the Water Utility Services estimates are determined. As of June 30, 2010 and December 31, 2009, accrued unbilled revenue was \$16,577 and \$12,435 respectively.

Unaccounted-for water on a 12 month-to-date basis for June 30, 2010 and 2009 approximated 7.62% and 7.97%, respectively, as a percentage of production. The estimate is based on the results of past experience, the trend and efforts in reducing the Water Utility Services unaccounted-for water through main replacements and lost water reduction programs.

Revenues also include a surcharge collected from regulated customers that is paid to the CPUC. This surcharge is recorded both in operating revenues and administrative and general expenses. For the six months ended June 30, 2010 and 2009, the surcharge was \$1,277 and \$1,393, respectively.

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

#### Recognition of Regulatory Assets and Liabilities

Generally accepted accounting principles for water utilities include the recognition of regulatory assets and liabilities as permitted by FASB ASC Topic 980 - Regulated Operations. In accordance with ASC Topic 980, the Water Utility Services, to the extent applicable, record deferred costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the ratemaking process in a period different from when the costs and credits are incurred. Accounting for such costs and credits is based on management's judgment and prior historical ratemaking practices, and it occurs when management determines that it is probable that these costs and credits will be recognized in the future revenue of the Water Utility Services through the ratemaking process. The regulatory assets and liabilities recorded by the Water Utility Services, in particular, San Jose Water Company, primarily relate to the recognition of deferred income taxes for ratemaking versus tax accounting purposes and the postretirement pension benefits, medical costs, accrued benefits for vacation and asset retirement obligations that have not been passed through rates. The disallowance of any asset in future ratemaking, including deferred regulatory assets, would require San Jose Water Company to immediately recognize the impact of the costs for financial reporting purposes. No disallowance was recognized as of June 30, 2010 and December 31, 2009. Net regulatory assets recorded by San Jose Water Company as of June 30, 2010 and December 31, 2009 were \$78,274 and \$78,525, respectively.

#### Pension Accounting

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

The pension plan is administered by a committee that is composed of an equal number of company and union representatives (the Committee). The Committee has retained an investment consultant, presently Wells Fargo Advisors, LLC, to assist it with, among other things, asset allocation strategy, investment policy advice, performance monitoring, and manager due diligence. Investment decisions have been delegated by the Committee to investment managers. Investment guidelines provided in the Investment Policy Statement require that at least 25% of the plan assets be invested in fixed income securities. As of December 31, 2009, the plan assets consist of approximately 37% bonds, 4% cash equivalents, and 59% equities. Furthermore, equities are to be diversified by industry groups and selected to achieve a balance of long-term growth and income combined with a goal of long-term preservation of capital. Except as provided for in the prospectus of any co-mingled investments, investment managers may not invest in commodities and futures contracts, private placements, options, letter stock, speculative securities, nor may they hold more than 5% of assets of any one private corporation. Except as provided for in the prospectus of any co-mingled investments, fixed income assets may only be invested in bonds, commercial paper, and money market funds with acceptable ratings by Moody's or Standard & Poor's as defined by the Investment Policy Statement. The investment manager performance is reviewed regularly by the investment consultant who provides quarterly reports to the Committee for review.

The market values of the plan assets are marked to market at the measurement date. The investment trust assets incur unrealized market gains or losses from time to time. Both unrealized market gains and losses on pension assets are amortized over 12.93 years for actuarial expense calculation purposes.

#### Income Taxes

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



Balancing Account

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

A balancing account is currently being maintained for the following items: purchased water, purchased power and groundwater extraction charges. The amount in the balancing account varies with the seasonality of the water utility business such that, during the summer months when the demand for water is at its peak, the account tends to reflect an under-collection while, during the winter months when demand for water is relatively lower, the account tends to reflect an over-collection.

Since the amounts in the balancing accounts must be approved by the CPUC before they can be incorporated into rates, San Jose Water Company does not recognize balancing accounts in its revenue until the CPUC authorizes a change in customers' rates related to any balancing account. It is typical for the CPUC to incorporate any over-collected and/or under-collected balances in balancing accounts into customer rates at the time rate decisions are made as part of the Company's general rate case proceedings by assessing temporary surcredits and/or surcharges. In such circumstances, the Company recognizes an impact to revenue, either positive or negative, as the surcredits and/or surcharges are billed to customer accounts.

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

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

Recognition of Gain/Loss on Utility, Nonutility Property and Real Estate Investments

In conformity with generally accepted accounting principles for rate-regulated public utilities, the cost of retired utility plant, including retirement costs (less salvage), is charged to accumulated depreciation and no gain or loss is recognized for utility plant used and useful in providing water utility services to customers.

Utility property in the Water Utility Services is property that is used and useful in providing water utility services to customers and is included in rate base for rate-setting purposes. In California, real estate type utility property is subject to California Public Utilities Code Section 851, which states any gain recognized will be divided with two-thirds going to the customers (in the form of rate reduction) and one-third to the shareholders. Net gains or losses from the sale of utility property are recorded as a component of other (expense) income in the consolidated statement of income and comprehensive income.

Nonutility property in the Water Utility Services is property that is neither used nor useful in providing water utility services to customers and is excluded from the rate base for rate-setting purposes. San Jose Water Company recognizes gain/loss on disposition of nonutility property in accordance with California Public Utilities Code Section 790.

SJW Land Company owns real estate investment property, which consists primarily of land and buildings. Net gains and losses from the sale of real estate investments are recorded as a component of other (expense) income in the consolidated statement of income and comprehensive income.

**Liquidity and Capital Resources:**

Cash Flow from Operations

During the six months ended June 30, 2010, SJW Corp. generated cash flow from operations of approximately \$22,100, compared to \$22,300 in 2009. Cash flow from operations is primarily generated by net income from its revenue producing activities, adjusted for non-cash expenses for depreciation and amortization, and deferred income taxes. The decrease in cash flow from operations of approximately \$200 was primarily due to a decrease in net income adjusted for non-cash items of \$1,600 offset by an increase in working capital and employee benefits of \$1,400. The increase in working capital and employee benefit uses were primarily due to an increase in accrued taxes and accrued payroll, offset by a decrease in accounts receivable, accrued unbilled utility revenue, accounts payable, purchased power and other current liabilities.



Cash Flow from Investing Activities

During the six months ended June 30, 2010, SJW Corp. used approximately \$38,500 of cash for company funded capital expenditures, \$1,700 for developer funded capital expenditures, and \$2,600 for acquisitions. This represented an increase in additions to utility plant of \$14,100 over the same period in 2009 due to greater capital expenditures offset by a decrease in acquisitions of \$1,100.

Water Utility Services' budgeted capital expenditures for 2010, exclusive of capital expenditures financed by customer contributions and advances, are \$70,016, of which approximately \$33,000 will be spent to replace the Water Utility Services' pipes and mains in 2010. Historically, amounts have been carried over from previous years' budgets. Approximately \$21,500 has been carried over from prior years for total forecasted 2010 capital expenditures of \$91,500. As of June 30, 2010, \$40,202 or 44% of the \$91,500 has been spent.

The Water Utility Services' capital expenditures are incurred in connection with normal upgrading and expansion of existing facilities and to comply with environmental regulations. Over the next five years, the Water Utility Services expects to incur approximately \$439,000 in capital expenditures, which includes replacement of pipes and mains, and maintaining water systems. Capital expenditures have the effect of increasing utility plant on which the Water Utility Services earns a return. The Water Utility Services' actual capital expenditures may vary from their projections due to changes in the expected demand for services, weather patterns, actions by governmental agencies, and general economic conditions. Total additions to utility plant normally exceed company-financed additions as a result of new facilities construction funded with advances from developers and contributions in aid of construction.

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

As of June 30, 2010, the Water Utility Services' write-offs for uncollectible accounts represent less than 1% of its total revenue, unchanged from June 30, 2009. Management believes it can continue to collect its accounts receivable balances at its historical collection rate.

Cash Flow from Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2010 increased by approximately \$13,900 from the same period in the prior year. As the company has increased its needs for capital expenditures, funding for these has been made possible from a net increase in the line of credit this year and additional long-term borrowings, where in the prior year we made a net repayment on the line of credit and issued long-term debt. Long-term borrowings during the six months ended June 30, 2010 consists of \$50,000 in California Pollution Control Financing Authority Revenue Bonds, of which \$22,267 was released for general use with the remaining held as restricted cash pursuant to the terms of the loan agreement with the California Pollution Control Financing Authority. During the same period in the prior year, San Jose Water Company issued a total of \$30,000 in unsecured Senior Notes, \$10,000 in Series J and \$20,000 in Series K.

**Sources of Capital:**

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

San Jose Water Company's financing activity is designed to achieve a capital structure consistent with regulatory guidelines of approximately 50% debt and 50% equity (book value). As of June 30, 2010, San Jose Water Company's funded debt and equity were approximately 55% and 45%, respectively.

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

San Jose Water Company's unsecured senior note agreements generally have terms and conditions that restrict San Jose Water Company from issuing additional funded debt if: (1) the funded debt would exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar-month period would be less than 175% of interest charges.





As of June 30, 2010, San Jose Water Company's funded debt was 55% of total capitalization and the net income available for interest charges was 328% of interest charges. As of June 30, 2010, San Jose Water Company did not have any restrictions in issuing future indebtedness as a result of these terms and conditions.

SJWTX, Inc.'s unsecured senior note agreement has SJW Corp. as a guarantor of the senior note which has terms and conditions that restrict SJW Corp. from issuing additional funded debt if: (1) the funded consolidated debt would exceed 66-2/3% of total capitalization, and (2) the minimum net worth of SJW Corp. becomes less than \$125,000 plus 30% of the Water Utility Services cumulative net income, since December 31, 2005. As of June 30, 2010, SJW Corp. did not have any restrictions in issuing any future indebtedness as a result of these terms and conditions.

SJW Corp. and its subsidiaries have available unsecured bank lines of credit, allowing aggregate short-term borrowings of up to \$85,000. These lines of credit bear interest at variable rates. They will expire on June 1, 2012. At June 30, 2010, the available unused short-term bank lines of credit was \$70,150. The cost of borrowing on unsecured bank lines of credit averaged 2% for the first six months of 2010. San Jose Water Company's unsecured bank line of credit has the following affirmative covenants: (1) the funded debt cannot exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar-month period cannot be less than 225% of interest charges. As of June 30, 2010, San Jose Water Company's funded debt was 55% of total capitalization and the net income available for interest charges was 328% of interest charges. As of June 30, 2010, San Jose Water Company is in compliance with all covenants.

On June 9, 2010, San Jose Water Company entered into a loan agreement with the California Pollution Control Financing Authority (the Authority), under which the proceeds from the issuance by the Authority of its 5.10% fixed rate revenue bonds in an aggregate principal amount of \$50,000 will be loaned to San Jose Water Company. The loan proceeds will be used by San Jose Water Company to finance, among other things, (i) improvements to the structures and facilities integral to the supply of water throughout the water supply system owned by San Jose Water Company (the Water System), (ii) improvements to the distribution system, and (iii) the acquisition of equipment for the Water System, subject to certain conditions. The loan agreement contains affirmative and negative covenants customary for a loan agreement relating to revenue bonds, including, among other things, complying with certain disclosure obligations and covenants relating to the tax exempt status of the interest on the bonds and limitations and prohibitions relating to the transfer of the project funded by the loan proceeds. As of June 30, 2010, San Jose Water Company has borrowed an aggregate of \$50,000 under this loan agreement, of which \$22,267 has been released from restriction, and was in compliance with all covenants.

## **Results of Operations:**

### **Overview**

SJW Corp.'s consolidated net income for the three months ended June 30, 2010 was \$4,516, an increase of \$98, or approximately 2%, from \$4,418 in the second quarter of 2009. For the six months ended June 30, 2010, consolidated net income was \$5,501, an increase of \$967, or approximately 21%, from \$4,534 for the same period in 2009. The increase for the three and six months ended June 30, 2010 was primarily due to lower production costs as a result of increased surface water availability.

### **Operating Revenue**

	Operating Revenue by Segment			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Water Utility Services	\$ 53,306	57,346	\$ 92,910	96,017
Real Estate Services	822	848	1,629	2,198
	\$ 54,128	58,194	\$ 94,539	98,215

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

Three Months Ended June 30, 2010 vs. 2009 Increase/(decrease)	Six Months Ended June 30, 2010 vs. 2009 Increase/(decrease)
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Water Utility Services:				
Consumption changes	\$ (5,425)	(9)%	\$ (6,115)	(6)%
New customers increase	99		148	
Rate increases	1,286	2%	2,860	3%
Real Estate Services	(26)		(569)	(1)%
	\$ (4,066)	(7)%	\$ (3,676)	(4)%

Operating Expense

	Operating Expense by Segment			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Water Utility Services	\$ 44,907	48,723	\$ 79,941	84,000
Real Estate Services	624	1,054	1,115	1,987
All Other	353	386	584	742
	\$ 45,884	50,163	\$ 81,640	86,729

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

	Three Months Ended		Six Months Ended	
	June 30, 2010 vs. 2009		June 30, 2010 vs. 2009	
	Increase/(decrease)		Increase/(decrease)	
Water production costs:				
Change in surface water supply	\$ (1,694)	(3)%	\$ (3,006)	(3)%
Change in usage and new customers	(3,356)	(7)%	(4,175)	(5)%
Purchased water and groundwater extraction charge and energy price increase	309	1%	797	1%
Total water production costs	(4,741)	(9)%	(6,384)	(7)%
Administrative and general	(214)	(1)%	(286)	
Other operating expense	(23)		468	
Maintenance	73		(67)	
Property taxes and other non-income taxes	(332)	(1)%	(919)	(2)%
Depreciation and amortization	832	2%	1,392	2%
Income taxes	126		707	1%
	\$ (4,279)	(9)%	\$ (5,089)	(6)%

Water production costs

The decrease in water production costs was primarily attributable to an increase in the availability of surface water supply in addition to a decrease in usage due to conservation efforts called for by the Santa Clara Valley Water District. These decreases were partially offset by an increase in higher per unit costs paid for energy.

Sources of Water Supply

The Water Utility Services water supply consists of groundwater from wells, surface water from watershed run-off and diversion, reclaimed water and water purchased from regional wholesalers. Surface water is the least expensive source of water. The following table presents the change in sources of water supply, in million gallons, for the Water Utility Services:

	Three Months Ended				Six Months Ended			
	June 30,		Increase/ (decrease)	% Change	June 30,		Increase/ (decrease)	% Change
	2010	2009			2010	2009		
Purchased water	5,934	6,532	(598)	(4)%	8,971	10,672	(1,701)	(8)%
Groundwater	4,023	6,073	(2,050)	(15)%	7,239	9,334	(2,095)	(10)%
Surface water	1,844	944	900	6%	3,255	1,634	1,621	8%
Reclaimed water	108	155	(47)		133	168	(35)	

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11,909	13,704	(1,795)	(13)%	19,598	21,808	(2,210)	(10)%
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The changes in the source of supply mix were consistent with the changes in the water production costs.

Operating expenses, excluding water production costs and income taxes, increased \$336 for the three months ended June 30, 2010 compared to the three months ended June 30, 2009. The increase was primarily attributable to an increase of \$832 in depreciation expense due to increased depreciable assets and \$73 in maintenance expenses. These increases were offset by a \$332 decrease in taxes other than income taxes and \$237 in all other expenses. In 2009, we incurred additional property tax expense as a result of a tenant bankruptcy. Income tax expense increased for the three months ended June 30, 2010 as a result of higher pre-tax income.

Operating expenses, excluding water production costs and income taxes, increased \$588 for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. The increase was primarily attributable to an increase of \$1,392 in depreciation expense due to increased depreciable assets and \$468 in other expenses. These increases were offset by a \$919 decrease in taxes other than income taxes and \$353 in all other expenses. In 2009, we incurred additional property tax expense as a result of a tenant bankruptcy. Income tax expense increased for the six months ending June 30, 2010 as a result of higher pre-tax income.

The change in other comprehensive income/(loss) for the three and six months ended June 30, 2010 and 2009 was due to the changes in market value of the investment in California Water Service Group.

#### Water Supply

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

On June 28, 2010, SCVWD's 10 reservoirs were approximately 69% full with 116,279 acre-feet of water in storage. The rainfall from July 1, 2009 to June 28, 2010 was approximately 121% of the seasonal average to date. In addition, the rainfall at San Jose Water Company's Lake Elsmar was measured at 58.53 inches for the period from July 1, 2009 through June 30, 2010, which is approximately 132% of the five-year average. Local surface water is a less costly source of water than groundwater or purchased water and its availability significantly impacts San Jose Water Company's results of operations. San Jose Water Company believes that its various sources of water supply will be sufficient to meet customer demand in 2010.

On December 15, 2008, the U.S. Fish and Wildlife Service issued a new Biological Opinion (BiOp) and Incidental Take Statement for the Central Valley Project (CVP) and the State Water Project (SWP) on the Delta smelt. The operating requirements of BiOp replaced the interim remedy ordered by Federal Judge Oliver Wanger in December 2007. The BiOp prescribes a range of operational criteria that are determined based on hydrology, fish distribution, abundance and other factors. Under a most likely scenario, the California Department of Water Resources (DWR) and United States Bureau of Reclamation (USBR) estimate that SWP and CVP supplies to SCVWD could be reduced by approximately 17% to 18% of the supply amount they currently receive. Under a worst case BiOp scenario, SWP and CVP supplies to SCVWD could be reduced by approximately 32% to 33% of the current supply amount they receive. In addition, while there is some overlap with the California Fish & Game Commission's restrictions to protect longfin smelt, the longfin pumping restrictions, if triggered, could cause significant supply impacts beyond those estimated to comply with Delta smelt requirements.

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

On June 15, 2010, the SCVWD board of directors passed a motion of intent to adopt a resolution calling for a three-month, 10% mandatory water conservation through September 30, 2010; and direct staff to bring back a special Board work study session, to include retailers and municipalities, to discuss tiered rates and the effect on water conservation. On July 13, 2010, the SCVWD board of directors passed and adopted this resolution.

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

#### Regulatory Affairs

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

On November 20, 2009, the CPUC approved the most recent general rate increase for San Jose Water Company. In summary, the decision authorizes a rate increase designed to increase revenue by \$18,597 or 9.24% in 2010. In accordance with CPUC rules, the subsequent increases for the years 2011 and 2012 will be based upon the consumer price indices published in October of the preceding year. Best estimates of these increases at that time were \$7,558 or 3.43% in 2011, and \$11,088 or 4.87% in 2012. These rate increases are designed to produce a return on common equity of 10.13%, which is comparable with recent authorized returns for water utilities in California. The stated revenue increases for 2010 through 2012 do not include additional authorized increases associated with scheduled expense and rate base offset filings, rate recovery of planned upgrades to the Montevina Treatment Plant, and the potential supplemental filings for rate recovery of investments in alternative energy projects. The new rates for 2010 became effective January 1, 2010.

On April 2, 2010, San Jose Water Company filed an application with the CPUC requesting authorization to increase the annual revenue requirement by \$80 or about 0.03% and to increase rates proportionately. This increase is necessary in order to support an annual increase of about \$410 in the capital budget for meter replacement, in order to comply with the requirements of the Commission's General Order No. 103. If approved, the rate change should become effective sometime in the fourth quarter of 2010.

On June 2, 2010, San Jose Water Company filed an advice letter with the CPUC requesting authorization to increase revenues by \$5,740 or approximately 2.61%. This increase is intended to recover the accumulated balance in the Mandatory Conservation Revenue Adjustment Memorandum Account ( MCRAM ), which covered the period from August 3, 2009 to May 1, 2010. The CPUC authorized San Jose Water Company to establish a MCRAM to track the revenue impact of mandatory conservation upon San Jose Water Company's quantity revenue resulting from mandatory conservation instituted by Santa Clara Valley Water District. As directed by the CPUC's Water Division, any revenue increase would be recovered via a surcharge on the existing quantity rate for a period of twelve months following final approval by the CPUC. All revenue would be recognized immediately after final approval by the CPUC.

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

SJW Corp. is subject to market risks in the normal course of business, including changes in interest rates, pension plan asset values, and equity prices. The exposure to changes in interest rates can result from the issuance of debt and short-term funds obtained through the Company's variable rate line of credit. SJW Corp. also owns 1,099,952 shares of common stock of California Water Service Group, which is listed on the NY Stock Exchange, and is therefore exposed to the risk of fluctuations and changes in equity prices.

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

**ITEM 4. CONTROLS AND PROCEDURES**

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

There has been no change in internal control over financial reporting during the second fiscal quarter of 2010 that has materially affected, or is reasonably likely to materially affect, the internal controls over financial reporting of SJW Corp.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 5. OTHER INFORMATION**

On July 28, 2010, the Board of Directors of SJW Corp. declared the regular quarterly dividend of \$0.17 per share of common stock. The dividend will be paid September 1, 2010 to shareholders of record as of the close of business on August 9, 2010.

**ITEM 6. EXHIBITS**

See Exhibit Index located immediately following the Certification of this document, which is incorporated herein by reference as required to be filed by Item 601 of Regulation S-K for the quarter ended June 30, 2010.

**SIGNATURES**

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

**SJW CORP.**

**DATE: August 6, 2010**

**By /s/ DAVID A. GREEN  
David A. Green  
Chief Financial Officer and Treasurer  
(Principal financial officer)**



EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Description</b>
4.1	Indenture dated as of June 1, 2010 between San Jose Water Company and Wells Fargo Bank, National Association. (1)
10.1	Credit Agreement dated as of May 27, 2010 by and between SJW Corp., SJW Land Company and Wells Fargo Bank, National Association. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 28, 2010.
10.2	Credit Agreement dated May 27, 2010 by and between San Jose Water Company and Wells Fargo Bank, National Association. Incorporated by reference to Exhibit 10.2 to Form 8-K filed on May 28, 2010.
10.3	Loan Agreement dated as of June 1, 2010 between the California Pollution Control Financing Authority and San Jose Water Company. (1)
10.4	Bond Purchase Agreement dated June 9, 2010 among Goldman, Sachs & Co., the Treasurer of the State of California and the California Pollution Control Financing Authority and approved by San Jose Water Company. (1)
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) by President and Chief Executive Officer. (1)
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chief Financial Officer and Treasurer. (1)
32.1	Certification Pursuant to 18 U.S.C. Section 1350 by President and Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)
32.2	Certification Pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer and Treasurer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)

(1) Filed currently herewith.