

SJW CORP
Form 10-Q
November 03, 2006

**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**

Edgar Filing: SJW CORP - Form 10-Q

For the quarterly period ended
Commission file number

September 30, 2006
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.)

374 West Santa Clara Street, San Jose, CA
(Address of principal executive offices)

95113
(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, or a non-accelerated filer. See definition of accelerated filer and large filer in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer Accelerated filer Non-accelerated filer

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:

Edgar Filing: SJW CORP - Form 10-Q

Common shares outstanding as of November 1, 2006 are 18,280,646.

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)

Edgar Filing: SJW CORP - Form 10-Q

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005	2006	2005
OPERATING REVENUE	\$ 63,119	58,469	\$ 144,734	136,575
OPERATING EXPENSES				
Operation:				
Purchased water	16,067	15,512	34,233	34,431
Power	2,415	1,872	4,137	3,392
Ground water extraction charges	8,023	7,285	14,527	13,145
Administrative and general	5,632	5,311	15,670	14,899
Other	3,709	3,701	11,084	10,308
Maintenance	2,680	2,252	7,308	6,633
Property taxes and other nonincome taxes	1,565	1,476	4,414	4,238
Depreciation and amortization	5,508	5,042	15,984	14,928
Income taxes	6,119	5,755	12,558	11,622
Total operating expenses	51,718	48,206	119,915	113,596
OPERATING INCOME	11,401	10,263	24,819	22,979
Interest on senior notes	(2,222)	(2,382)	(6,837)	(7,155)
Mortgage and other interest expense	(161)	(238)	(700)	(687)
Dividend income	317	313	949	940
Sale of nonutility property, net of taxes of \$1,056 for 2006 and \$761 for 2005	-	1,095	1,535	1,095
Other, net	(477)	176	(234)	451
NET INCOME	\$ 8,858	9,227	\$ 19,532	17,623
Other comprehensive income (loss):				
Unrealized income (loss) on investment	\$ 1,309	4,026	\$ (1,430)	3,905
Income tax benefit (provision)	(537)	(1,651)	586	(1,601)
Other comprehensive income (loss), net	772	2,375	(844)	2,304
COMPREHENSIVE INCOME	\$ 9,630	11,602	\$ 18,688	19,927
EARNINGS PER SHARE				
Basic	\$ 0.48	0.51	\$ 1.07	0.97
Diluted	\$ 0.48	0.50	\$ 1.05	0.96
DIVIDENDS PER SHARE	\$ 0.14	0.13	\$ 0.42	0.40
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	18,277,728	18,270,882	18,273,558	18,271,420
Diluted	18,558,508	18,500,982	18,539,781	18,469,448

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands)

Edgar Filing: SJW CORP - Form 10-Q

	SEPTEMBER 30 2006	DECEMBER 31 2005
ASSETS		
Utility Plant:		
Land	\$ 4,719	1,735
Depreciable plant and equipment	699,758	648,931
Construction in progress	18,584	5,611
Intangible assets	7,840	7,840
Total utility plant	730,901	664,117
Less accumulated depreciation and amortization	231,641	208,909
Net utility plant	499,260	455,208
Nonutility property	48,040	38,720
Less accumulated depreciation	3,998	3,870
Net nonutility property	44,042	34,850
CURRENT ASSETS:		
Cash and equivalents	2,896	9,398
Accounts receivable:		
Customers, net of allowances for uncollectible accounts	13,952	9,701
Other	731	1,444
Unbilled utility revenue	18,054	8,706
Long-lived assets held-for-sale	2,738	149
Materials and supplies	653	624
Prepaid expenses	1,986	1,670
Total current assets	41,010	31,692
OTHER ASSETS:		
Investment in California Water Service Group	40,621	42,051
Unamortized debt issuance and reacquisition costs	3,007	3,131
Regulatory assets	13,119	13,037
Intangible pension asset	3,953	3,953
Other	3,374	3,787
Total other assets	64,074	65,959
	\$ 648,386	587,709

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands)

Edgar Filing: SJW CORP - Form 10-Q

	SEPTEMBER 30 2006	DECEMBER 31 2005
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common stock	\$ 9,521	9,516
Additional paid-in capital	16,166	15,368
Retained earnings	172,208	160,588
Accumulated other comprehensive income	9,592	10,436
Total shareholders equity	207,487	195,908
Long-term debt, less current portion	148,692	145,281
Total capitalization	356,179	341,189
CURRENT LIABILITIES:		
Line of credit	28,000	
Current portion of long-term debt	494	332
Accrued ground water extraction charges and purchased water	7,424	3,985
Purchased power	880	804
Accounts payable	9,374	5,120
Accrued interest	2,429	3,618
Accrued taxes	5,181	1,619
Accrued payroll	1,909	1,526
Work order deposit	430	486
Other current liabilities	4,107	3,454
Total current liabilities	60,228	20,944
DEFERRED INCOME TAXES	51,794	52,246
UNAMORTIZED INVESTMENT TAX CREDITS	1,809	1,854
ADVANCES FOR CONSTRUCTION	69,668	69,964
CONTRIBUTIONS IN AID OF CONSTRUCTION	92,610	84,271
DEFERRED REVENUE	1,269	1,273
POSTRETIREMENT BENEFIT PLANS	11,385	13,213
OTHER NONCURRENT LIABILITIES	3,444	2,755
	\$ 648,386	587,709

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

Edgar Filing: SJW CORP - Form 10-Q

	NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005
OPERATING ACTIVITIES:		
Net income	\$ 19,532	17,623
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,984	14,928
Deferred income taxes	(1,483)	497
Stock based compensation	790	963
Gain on sale of nonutility property, net of taxes	(1,535)	(1,095)
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	(12,351)	(16,697)
Accounts payable, purchased power and other current liabilities	4,547	6,152
Accrued ground water extraction charges and purchased water	3,439	3,161
Accrued taxes	3,491	3,767
Accrued interest	(1,189)	(1,416)
Accrued payroll	383	257
Work order deposits	(56)	(301)
Prepaid expenses and materials and supplies	(344)	(812)
Deferred revenue	(3)	4
Other noncurrent assets and noncurrent liabilities	(402)	164
Other changes, net	936	777
NET CASH PROVIDED BY OPERATING ACTIVITIES	31,739	27,972
INVESTING ACTIVITIES:		
Additions to utility plant	(45,619)	(33,845)
Additions to nonutility property	(12,630)	(322)
Cost to retire utility plant, net of salvage	(599)	(89)
Proceeds from sale of nonutility property	2,739	3,414
Cash acquired from the acquisition of Canyon Lake Water Supply Corporation, net of payments made for the acquisition	4,083	-
NET CASH USED IN INVESTING ACTIVITIES	(52,026)	(30,842)
FINANCING ACTIVITIES:		
Discharge of Canyon Lake Water Supply Corporation bonds	(19,951)	-
Borrowings from line of credit	29,500	-
Repayments of line of credit	(1,500)	-
Long-term borrowings	3,854	1,953
Repayments of long-term borrowings	(280)	(204)
Stock buyback	-	(185)
Dividends paid	(7,744)	(7,332)
Exercise of stock options	10	16
Receipts of advances and contributions in aid of construction	11,409	10,364
Refunds of advances for construction	(1,513)	(1,489)
NET CASH PROVIDED BY FINANCING ACTIVITIES	13,785	3,123
NET CHANGE IN CASH AND EQUIVALENTS	(6,502)	253
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	9,398	10,899
CASH AND EQUIVALENTS, END OF PERIOD	\$ 2,896	11,152
Cash paid during the period for:		
Interest	\$ 9,308	9,284
Income taxes	10,907	9,551

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Note 1. General

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

The Notes to Consolidated Financial Statements in SJW Corp.'s 2005 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 climactic 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 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 and awards granted under the Employee Stock Purchase Plan granted under SJW Corp.'s Long-Term Incentive Plan (the Incentive Plan) and income available to common shareholders.

For the three months ended September 30, 2006 and 2005, the basic weighted average number of common shares was 18,277,728 and 18,270,882, respectively. For the nine months ended September 30, 2006 and 2005, the basic weighted average number of common shares was 18,273,558 and 18,271,420, respectively. For the three months ended September 30, 2006 and 2005, the diluted weighted average number of common shares was 18,558,508 and 18,500,982, respectively. For the nine months ended September 30, 2006 and 2005, the diluted weighted average number of common shares was 18,539,781 and 18,469,448, respectively. For the three and nine months ended September 30, 2006, 28,164 option share equivalents were excluded from the dilutive calculation because they were anti-dilutive.

Note 2. Long-Term Incentive Plan

Common Shares

SJW Corp. has a Long-Term Stock Incentive Plan (the Incentive Plan), which has 1,800,000 common shares reserved for issuance. The Incentive Plan includes terms allowing non-employee directors to receive awards, authorizing the plan administrator to grant stock appreciation rights, and listing the performance criteria for performance shares. The Incentive Plan allows SJW Corp. to provide key employees, including officers, and non-employee directors, the opportunity to acquire an equity interest in SJW Corp. A participant in the Incentive Plan generally may not receive Incentive Plan awards covering an aggregate of more than 600,000 common shares in any calendar year. Additionally, awards granted under the Incentive Plan may be conditioned upon the attainment of specified performance

goals. 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). As of September 30, 2006, 18,878 shares have been issued pursuant to the Incentive Plan, and 396,880 shares are issuable upon the exercise of outstanding options, restricted stock units, and deferred restricted stock units. The remaining shares available for issuance under the Incentive Plan are 1,384,242. The total compensation cost charged to income under the Incentive Plan for the three and nine months ended September 30, 2006, was \$138,000 and \$522,000, respectively, and for the three and nine months ended September 30, 2005, was \$313,000 and \$930,000, respectively. The total benefit, including non-employee directors' converted post-retirement benefits, recorded in shareholders' equity under the Incentive Plan for the three and nine months ended September 30, 2006, was \$82,000 and \$551,000, respectively, and for the three and nine months ended September 30, 2005, was \$263,000, and \$963,000, respectively.

Stock Options

At the beginning of 2006, SJW Corp. adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share Based Payment (Statement 123R), for all existing and new share based compensation plans in accordance with the modified prospective transition method. Previously, SJW Corp. followed SFAS 123, Accounting for Stock Based Compensation (Statement 123), in accounting for its share-based compensation plans. To estimate the fair value of options at grant date as the basis for the stock based compensation awards, SJW Corp. utilizes the Black-Scholes option-pricing model, which requires the use of subjective assumptions. Further, as required under Statement 123R, SJW Corp. now estimates forfeitures for the share based awards that are not expected to vest. Changes in these inputs and assumptions can affect the measure of estimated fair value of our share based compensation. The weighted average assumptions utilized include:

	2006	2005	2004
Expected dividend yield	N/A	2.6 %	3.3 %
Expected volatility	N/A	24.3 %	23.6 %
Risk-free interest rate	N/A	3.67 %	3.22 %
Expected holding period in years	N/A	5.0	5.0

Awards in the form of stock option agreements under the Incentive Plan allow executives to purchase common shares at a specified price. Options are granted at an exercise price that is not less than the per share market price on the date of the grant. Options vest at a 25% rate on each annual date over four years and are exercisable over a ten year period. No options were granted during the nine month period ending September 30, 2006, and 57,484 shares were granted during the nine month period ending September 30, 2005, out of which 836 shares were forfeited due to an employee's employment termination with SJW Corp. in December 2005. The remaining forfeited shares of 1,066 were granted in 2003 and 2004 and relate to the same termination. During the nine months ended September 30, 2006, 796 option shares and 20 shares from vested dividend equivalent rights were exercised. 1,060 shares were exercised during the nine months ended September 30, 2005. For the nine months ended September 30, 2006, total cash received on exercise of options amounted to \$15,000 and the tax benefit realized from stock options exercised amounted to \$3,000. Shares subject to outstanding options under the Incentive Plan were 163,204 and 165,902 as of September 30, 2006, and September 30, 2005, respectively.

Edgar Filing: SJW CORP - Form 10-Q

For the three and nine month period ended September 30, 2006, 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 \$33,000 and \$98,000, respectively, for the three and nine months ended September 30, 2006, and \$31,000 and \$88,000, respectively, for the three and nine months ended September 30, 2005.

Stock Options

	Shares	Weighted Average Exercise Price	Weighted Average remaining life in years	Aggregate Intrinsic Value
Outstanding as of January 1, 2006	165,902	\$ 16.38	8.20	\$ 1,056,796
Granted	-	-	-	-
Exercised	(530)	\$ 14.42	-	-
Forfeited	(1,902)	-	-	-
Outstanding as of March 31, 2006	163,470	\$ 16.39	7.92	\$ 1,710,690
Granted	-	-	-	-
Exercised	(266)	14.00	-	-
Forfeited	-	-	-	-
Outstanding as of June 30, 2006	163,204	\$ 16.39	7.68	\$ 1,478,787
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding as of September 30, 2006	163,204	\$ 16.39	7.42	\$ 2,206,677
Options exercisable at September 30, 2006	80,838	\$ 15.34	7.11	\$ 1,177,801
Range of exercise prices		\$ 14.00 27.69		
Weighted-average fair value of options granted during the year	-	-	-	-

A summary of the status of SJW Corp. s nonvested stock options as of September 30, 2006 and changes during the nine month period ended September 30, 2006, are presented below:

	Shares	Weighted Grant-Date Fair Value
Nonvested as of January 1, 2006	125,540	\$ 2.02
Granted	-	-
Vested	(23,445)	\$ 1.41
Forfeited	(1,902)	\$ 1.46
Nonvested as of March 31, 2006	100,193	\$ 2.17
Granted	-	-
Vested	(14,327)	\$ 2.69
Forfeited	-	-
Nonvested as of June 30, 2006	85,866	\$ 2.08
Granted	-	-
Vested	(3,500)	\$ 5.31
Forfeited	-	-
Nonvested as of September 30, 2006	82,366	\$ 1.95

As of September 30, 2006, total unrecognized compensation costs related to stock options amounted to \$206,000. These costs are expected to be recognized over a weighted-average period of 1.58 years.

Restricted Stock and Deferred Restricted Stock Plans

On January 30, 2006, restricted stock units for 14,000 shares of common stock were granted to a key employee of SJW Corp., which vest over a period of four years, as services are rendered. The restricted stock units were valued at a market price of \$25.29 per share at the date of grant and will be recognized as share based compensation expense over the vesting period. SJW Corp. has recorded \$22,000 and \$59,000, respectively, for the three and nine months ended September 30, 2006, as share based compensation expense for this grant.

On June 27, 2003, deferred restricted stock units for 83,340 shares of common stock were granted to a key employee of SJW Corp., which vested in December 2005 and are redeemable upon retirement. The deferred restricted stock units were valued at the market price of \$14.05 per share at the date of the grant, which was recognized as stock compensation expense over the vesting period. As of September 30, 2006, the deferred restricted units were fully vested and no compensation expense was recognized in 2006. Compensation expense related to these deferred restricted stock units amounted to \$117,000 and \$351,000, respectively, for the three and nine months ended September 30, 2005. The final compensation expense for this grant was recognized in the quarter ended December 31, 2005.

SJW Corp. has (i) a Deferred Restricted Stock Program (Stock Program) for non-employee Board members whereby non-employee Board members were entitled in 2003 to elect to convert their existing cash pension benefits into deferred restricted stock units and whereby certain directors will receive annual grants of deferred restricted stock units, and (ii) a Deferral Election Program for non-employee Board members (Deferral Program) whereby non-employee Board members can elect to convert their annual retainer fees into deferred restricted stock units. The program has been amended as of June 1, 2006 to also include meeting fees earned for the 2007 calendar year to be deferred into deferred restricted stock units. The number of shares of each annual deferred restricted stock award is equal to the annual retainer fee as of the date of grant divided by (i) the fair market value of SJW

Corp. s common stock on the date of grant under the Stock Program or (ii) the fair market value of SJW Corp. s common stock as of the last business day of the year under the Deferral Program.

On September 1, 2003, deferred restricted stock units covering 111,048 shares were granted to non-employee Board members who elected to receive their existing and future cash pension benefits in deferred restricted stock awards under the Stock Program at the market price of \$14.20 per share. With respect to the conversion of existing pension benefits, which were accrued before the grant date, 40,974 shares were fully vested at the time of grant and the remaining 70,074 shares vest over a period of three years when services are rendered. As of September 30, 2006, a total of 15,978 shares were issued pursuant to deferred restricted stock awards under the Stock Program to a retired non-employee Board member. As of September 30, 2006, total vested shares are 95,070. In accordance with Statement 123R, SJW Corp. has recognized share based compensation expense of \$0 and \$117,000, for the three and nine months ended September 30, 2006, and \$87,000 and \$262,000, respectively, for the three and nine months ended, September 30, 2005, related to deferred restricted stock awards under the Stock Program. As of September 30, 2006, the deferred restricted units were fully vested and no compensation expense was recognized in the third quarter of 2006.

Directors who elected to convert their annual retainer fee receive deferred restricted stock units in an amount equal to the annual retainer fee divided by the fair market value of SJW Corp. s common stock on the last business day before the date of grant. These deferred restricted stock units vest on a monthly basis over the annual period in which the retainer would have otherwise been earned.

In January 2006, deferred restricted stock units covering 4,744 shares were issued to the non-employee Board members who elected to convert their annual retainer fee at a conversion price of \$22.75 per share under the Deferral Program. As of September 30, 2006 and 2005, SJW Corp. granted deferred restricted stock awards for 20,520 and 15,776 cumulative shares in lieu of cash retainer fees since its inception, respectively. SJW Corp. has recognized share based compensation expense of \$27,000 and \$81,000, respectively, for the three and nine months ended September 30, 2006, and \$27,000 and \$81,000, respectively, for the three and nine months ended September 30, 2005, related to deferred restricted stock awards granted to non-employee Board members in connection with their annual retainers.

Restricted and Deferred Restricted Stock

	Units	Weighted-Average Issue Price
Outstanding as of January 1, 2006	194,186	\$ 14.28
Issued	18,744	\$ 24.65
Exercised		
Forfeited		
Outstanding as of March 31, 2006	212,930	\$ 15.19
Issued		
Exercised		
Forfeited		
Outstanding as of June 30, 2006	212,930	\$ 15.19
Issued		
Exercised		
Forfeited		
Outstanding as of September 30, 2006	212,930	\$ 15.19
Shares vested as of September 30, 2006	197,744	\$ 14.43

A summary of the status of SJW Corp.'s nonvested restricted and deferred restricted stock plans as of September 30, 2006, and changes during the nine month period ended September 30, 2006, are presented below:

	Units	Weighted Grant-Date Fair Value
Nonvested as of January 1, 2006	49,677	\$ 14.12
Granted	18,744	\$ 24.65
Vested	(28,966)	\$ 14.41
Nonvested as of March 31, 2006	39,455	\$ 18.91
Granted		
Vested	(23,083)	\$ 14.64
Nonvested as of June 30, 2006	16,372	\$ 24.92
Granted		
Vested	(1,186)	\$ 22.75
Nonvested as of September 30, 2006	15,186	\$ 25.09

As of September 30, 2006, total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to \$322,000. These costs are expected to be recognized over a weighted-average period of 1.64 years.

Dividend Equivalent Rights

Under the Incentive Plan, holders of options, restricted stock and deferred restricted stock awards have the right to receive dividend rights each time a dividend is paid on common shares after the grant date. Stock compensation on dividend equivalent rights is recognized as a liability and recorded against

retained earnings on the date dividends are issued. As of September 30, 2006 and 2005, a cumulative of 21,296 and 12,722 dividend equivalent rights were converted, since inception, to deferred restricted stock awards, respectively, and \$168,000 and \$147,000 related to dividend equivalent rights were accrued as a liability and recorded against retained earnings, respectively.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (ESPP) was approved by the shareholders on April 28, 2005, and permits eligible employees to purchase SJW Corp. stock at a discounted price. Shares of common stock are offered for purchase under the ESPP through a series of successive offering periods until such time as (i) the maximum number of shares of common stock available for issuance under the ESPP shall have been purchased or (ii) the ESPP is terminated. A total of 270,400 shares of common stock have been reserved for issuance under the ESPP.

The ESPP allows employees to designate up to a maximum of ten percent (10%) of their base compensation, subject to certain restrictions, to purchase shares of common stock at 85% of the fair market value of shares on the purchase date. The first purchase interval in effect under the ESPP began on February 1, 2006, and ended on July 31, 2006. The second purchase interval in effect under the ESPP began on August 1, 2006 and will end on January 31, 2007. As of September 30, 2006, a total of 8,948 shares were issued under the ESPP for the first purchase period. The ESPP has no look-back provisions. As of September 30, 2006, cash received from employees towards the ESPP amounted to \$84,000.

After considering the estimated employee terminations or withdrawals from the plan before the purchase date, for the three and nine months ended September 30, 2006, SJW Corp. recorded expense of \$15,000 and \$45,000, respectively, related to the ESPP.

As of September 30, 2006, total unrecognized compensation costs related to the second semi-annual offering period ending January 31, 2007, for the ESPP is approximately \$29,000. These costs are expected to be recognized during the fourth quarter of 2006 and first quarter of 2007.

Note 3. Nonregulated Business

The business activities of SJW Corp. consist primarily 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 (see Note 9). Included in the total operating revenue and operating expense are the nonregulated business activities of SJW Corp. The nonregulated businesses of SJW Corp. are comprised of operating the City of Cupertino Municipal Water Systems, parking and lease operations of several commercial buildings and properties of SJW Land Company, and the sale and rental of water conditioning and purification equipment of Crystal Choice Water Service LLC. The following tables represent the distribution of the regulated and nonregulated business activities for the three and nine months ended September 30, 2006 and 2005:

Edgar Filing: SJW CORP - Form 10-Q

	Three Months Ended September 30 2006 (in thousands)			Three Months Ended September 30 2005		
	Regulated	Non Regulated	Total	Regulated	Non Regulated	Total
	Revenue	\$ 60,287	\$ 2,832	\$ 63,119	\$ 56,038	\$ 2,431
Expenses	49,530	2,188	51,718	46,133	2,073	48,206
Operating Income	\$ 10,757	\$ 644	\$ 11,401	\$ 9,905	\$ 358	\$ 10,263

	Nine Months Ended September 30 2006 (in thousands)			Nine Months Ended September 30 2005		
	Regulated	Non Regulated	Total	Regulated	Non Regulated	Total
	Revenue	\$ 137,499	\$ 7,235	\$ 144,734	\$ 130,310	\$ 6,265
Expenses	113,982	5,933	119,915	108,296	5,300	113,596
Operating Income	\$ 23,517	\$ 1,302	\$ 24,819	\$ 22,014	\$ 965	\$ 22,979

Note 4. Nonutility Property

The major components of net nonutility property as of September 30, 2006, and December 31, 2005 are as follows:

	September 30 2006 (in thousands)	December 31 2005
Land	\$ 11,160	\$ 9,907
Buildings and improvements		