

SJW CORP
Form 10-Q
August 01, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2008
Commission file number 1-8966

SJW Corp.

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of
incorporation or organization)

110 W. Taylor Street, San Jose, CA
(Address of principal executive offices)

77-0066628

(I.R.S. Employer
Identification No.)

95110
(Zip Code)

408-279-7800

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(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:

Common shares outstanding as of July 14, 2008 are 18,416,758.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SJW Corp. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands, except share and per share data)

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	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2008	2007	2008	2007
OPERATING REVENUE	\$ 60,058	55,135	\$ 101,311	94,152
OPERATING EXPENSE:				
Operation:				
Purchased water	14,176	13,287	21,172	22,613
Power	2,010	2,264	3,076	3,176
Groundwater extraction charges	9,417	8,555	14,833	12,121
Total production costs	25,603	24,106	39,081	37,910
Administrative and general	5,648	5,265	11,487	11,055
Other	4,069	3,628	7,752	7,249
Maintenance	3,272	2,995	6,316	5,787
Property taxes and other nonincome taxes	1,641	1,574	3,231	3,156
Depreciation and amortization	5,984	5,672	12,047	11,285
Income taxes	4,309	3,835	6,095	5,241
Total operating expense	50,526	47,075	86,009	81,683
OPERATING INCOME	9,532	8,060	15,302	12,469
OTHER (EXPENSE) INCOME:				
Interest on senior notes	(3,117)	(2,713)	(6,169)	(5,453)
Mortgage and other interest expense	(566)	(491)	(1,141)	(942)
Dividends	321	319	643	638
Other, net	108	231	361	816
NET INCOME	6,278	5,406	8,996	7,528
Other comprehensive (loss):				
Unrealized (loss) on investment	(5,917)	(913)	(4,675)	(3,201)
Less: income taxes related to other comprehensive (loss)	2,426	374	1,917	1,312
Other comprehensive (loss), net	(3,491)	(539)	(2,758)	(1,889)
COMPREHENSIVE INCOME	\$ 2,787	4,867	\$ 6,238	5,639
EARNINGS PER SHARE				
Basic	\$ 0.34	0.30	\$ 0.49	0.41
Diluted	\$ 0.34	0.29	\$ 0.48	0.41
DIVIDENDS PER SHARE	\$ 0.16	0.15	\$ 0.32	0.30
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	18,403,322	18,324,819	18,390,407	18,312,604
Diluted	18,596,276	18,539,267	18,594,329	18,528,363

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except share and per share data)

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	JUNE 30 2008	DECEMBER 31 2007
ASSETS		
Utility plant:		
Land	\$ 5,704	5,695
Depreciable plant and equipment	820,732	778,277
Construction in progress	11,208	24,298
Intangible assets	8,040	8,040
	845,684	816,310
Less accumulated depreciation and amortization	265,194	255,025
	580,490	561,285
Real estate investment	88,029	88,029
Less accumulated depreciation and amortization	4,672	3,834
	83,357	84,195
CURRENT ASSETS:		
Cash and cash equivalents	1,836	2,354
Accounts receivable:		
Customers, net of allowances for uncollectible accounts	14,391	10,390
Income tax	1,030	2,557
Other	1,557	1,222
Accrued unbilled utility revenue	18,265	12,654
Materials and supplies	844	782
Prepaid expenses	1,177	1,632
	39,100	31,591
OTHER ASSETS:		
Investment in California Water Service Group	36,045	40,720
Unamortized debt issuance and reacquisition costs	3,257	3,345
Regulatory assets	44,088	44,712
Other	1,609	1,478
	84,999	90,255
	\$ 787,946	767,326

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

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(in thousands, except share and per share data)

	JUNE 30 2008	DECEMBER 31 2007
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Shareholders' equity:		
Common stock, \$0.521 par value; authorized 36,000,000 shares; issued and outstanding 18,416,758 shares on June 30, 2008 and 18,333,483 in 2007	\$ 9,592	9,564
Additional paid-in capital	19,738	18,723
Retained earnings	198,302	195,331
Accumulated other comprehensive income	10,558	13,316
Total shareholders' equity	238,190	236,934
Long-term debt, less current portion	217,033	216,312
	455,223	453,246
CURRENT LIABILITIES:		
Line of credit	15,500	5,000
Current portion of long-term debt	643	622
Accrued groundwater extraction charges and purchased water	9,065	5,595
Purchased power	1,499	514
Accounts payable	6,194	9,268
Accrued interest	4,567	4,522
Accrued taxes	395	791
Accrued payroll	2,847	2,583
Other current liabilities	4,307	4,059
	45,017	32,954
DEFERRED INCOME TAXES	75,709	74,643
UNAMORTIZED INVESTMENT TAX CREDITS	1,705	1,735
ADVANCES FOR CONSTRUCTION	75,359	74,518
CONTRIBUTIONS IN AID OF CONSTRUCTION	103,722	100,649
DEFERRED REVENUE	1,270	1,313
POSTRETIREMENT BENEFIT PLANS	24,816	23,357
OTHER NONCURRENT LIABILITIES	5,125	4,911
COMMITMENTS AND CONTINGENCIES		
	\$ 787,946	767,326

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)

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	SIX MONTHS ENDED JUNE 30	
	2008	2007
OPERATING ACTIVITIES:		
Net income	\$ 8,996	7,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,047	11,285
Deferred income taxes	1,036	(2,975)
Share-based compensation	292	372
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	(9,948)	(8,450)
Accounts payable, purchased power and other current liabilities	381	(1,364)
Accrued groundwater extraction charges and purchased water	3,469	7,021
Accrued taxes	1,131	3,316
Accrued interest	45	501
Accrued payroll	264	(165)
Prepaid expenses and materials and supplies	394	495
Postretirement benefits	1,520	1,841
Other noncurrent assets and noncurrent liabilities	2,830	2,826
Other changes, net	362	1,632
NET CASH PROVIDED BY OPERATING ACTIVITIES	22,819	23,863
INVESTING ACTIVITIES:		
Additions to utility plant	(33,654)	(29,876)
Additions to nonutility property		(48,245)
Cost to retire utility plant, net of salvage	(44)	(677)
Sale proceeds from trust account		31,261
NET CASH USED IN INVESTING ACTIVITIES	(33,698)	(47,537)
FINANCING ACTIVITIES:		
Borrowings from line of credit	14,450	8,800
Repayments of line of credit	(3,950)	(20,800)
Long-term borrowings	1,069	33,500
Repayments of long-term borrowings	(327)	(330)
Dividends paid	(5,934)	(5,538)
Exercise of stock options and similar instruments	428	787
Tax benefits realized from share options exercised	324	381
Receipts of advances and contributions in aid of construction	5,233	9,840
Refunds of advances for construction	(932)	(1,061)
NET CASH PROVIDED BY FINANCING ACTIVITIES	10,361	25,579
NET CHANGE IN CASH AND CASH EQUIVALENTS	(518)	1,905
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,354	3,788
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,836	5,693
Cash paid during the period for:		
Interest	\$ 7,555	6,233
Income taxes	1,015	966
Supplemental disclosure of non-cash activities:		
Decrease in accrued payables for additions to utility plant	(2,260)	(272)
Amortization of debt issuance costs	93	91
Decrease in real estate investments due to transfer to utility property		3,035
Utility property installed by developers	1,152	

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(in thousands, except share and per share data)

Note 1. General

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

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

Water sales are seasonal in nature. The demand for water, especially by residential customers, is generally influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by residential customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater and lower in the winter when cooler temperatures and increased rainfall curtail water usage and sales.

Basic earnings per share is calculated using income available to common shareholders, divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated using income available to common shareholders divided by the weighted average number of common shares including both shares outstanding and shares potentially issued in connection with stock options, deferred restricted common stock awards under SJW Corp.'s Long-Term Incentive Plan (the Incentive Plan) and shares potentially issued under the Employee Stock Purchase Plan.

For the three months ended June 30, 2008 and 2007, the basic weighted average number of common shares was 18,403,322 and 18,324,819, respectively. For the six months ended June 30, 2008 and 2007, the basic weighted average number of common shares was 18,390,407 and 18,312,604, respectively. For the three months ended June 30, 2008 and 2007, the diluted weighted average number of common shares was 18,596,276 and 18,539,267, respectively. For the six months ended June 30, 2008 and 2007, the diluted weighted average number of common shares was 18,594,329 and 18,528,363, respectively. For the six months ended June 30, 2008, 13,011 common stock units and for the three and six months ended June 30, 2007, 494 shares in the Employee Stock Purchase Plan were excluded from the dilutive calculation because they were anti-dilutive.

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

Common Shares

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

As of June 30, 2008, SJW Corp.'s Long-Term Incentive Plan (as amended, the Incentive Plan) allows non-employee directors of SJW Corp. to receive awards, authorizes the plan administrator to grant stock appreciation rights, and lists the performance criteria for performance shares. In addition, the Incentive Plan allows SJW Corp. to provide employees, including officers, and non-employee directors, the opportunity to acquire an equity interest in SJW Corp. The types of awards included in the Incentive Plan are stock options, dividend units, performance shares, rights to acquire restricted stock and stock bonuses. In addition, shares are issued under the Employee Stock Purchase Plan (ESPP). The remaining shares available for issuance under the Incentive Plan are 1,309,819. As of June 30, 2008, 353,974 shares are issuable upon the exercise of outstanding options, restricted stock units and deferred stock units. The total compensation cost charged to income under the Incentive Plan for the three and six months ended June 30, 2008 was \$154 and \$292, respectively, and for the three and six months ended June 30, 2007, was \$164 and \$372, respectively.

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

Stock Options

No options were granted during the six months ending June 30, 2008 and 2007.

For the six months ended June 30, 2008, after taking into consideration the relevant facts and circumstances, SJW Corp. does not project any foreseeable terminations which could lead to forfeiture of unvested options. SJW Corp. has recognized share-based compensation expense for the stock options granted under the Incentive Plan of \$14 and \$29 for the three and six months ended June 30, 2008, respectively, and \$26 and \$59 for the three and six months ended June 30, 2007, respectively. As of June 30, 2008, total unrecognized compensation costs related to stock options amounted to \$40. These costs are expected to be recognized over a weighted average period of 1.0 year.

SFAS 123R requires the cash flows resulting from the tax benefits for deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as cash from financing activities. For the three and six months ended June 30, 2008, total cash received on exercise of options amounted to \$71 and the excess tax benefits realized from stock options

exercised amounted to \$19. For the three and six months ended June 30, 2007, total cash received on exercise of options amounted to \$95 and \$589, respectively, and the excess tax benefits realized from stock options exercised amounted to \$33 and \$229, respectively.

Deferred Restricted Stock and Deferral Election Programs and Restricted Stock Awards

Under SJW Corp.'s Amended and Restated Deferred Restricted Stock Program (the "Deferred Restricted Stock Program"), SJW Corp. granted deferred restricted stock units to non-employee Board members. This program was amended effective January 1, 2008. As a result of that amendment, no new awards of deferred restricted stock units will be made under the Deferred Restricted Stock Program with respect to service after December 31, 2007. In addition, SJW Corp.'s Deferral Election Program, as amended (the "Deferral Program"), includes retainer fees and meeting fees earned for the calendar year 2007 to be deferred into deferred restricted stock units. Prior to 2007, only retainer fees were allowed to be converted under the Deferral Program. The retainer fees and meeting fees are collectively referred to as the "Annual Service Fees." For any post-2007 calendar year, the Annual Service Fees that are deferred will be credited as a dollar amount to a deferred election account, and will no longer be deferred into deferred restricted stock units.

As of June 30, 2008 a total of 34,512 shares of common stock were distributed to a retired member of SJW Corp.'s Board of Directors. Additionally, SJW Corp. paid cash in the amount of \$4 to settle the dividend equivalent rights earned for those shares with a lump-sum distribution. The excess tax benefits realized from the distribution of common stock to a retired member of the Board of Directors amounted to \$266.

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

Additionally, 7,258 shares of restricted stock units were granted to several executives of SJW Corp. under the Company's Long-Term Incentive Plan. These units will vest in four successive annual installments upon completion of each year of service with no dividend equivalent rights. Share based compensation expense is recognized at grant date fair value of \$31.32 per unit.

SJW Corp. has recognized an aggregate share-based compensation expense of \$139 and \$263 for the three and six months ended June 30, 2008, respectively, and \$138 and \$314 for the three and six months ended June 30, 2007, respectively, related to restricted and deferred restricted stock awards to employees. No share based compensation expense was recognized for the three and six months ended June 30, 2008, related to restricted and deferred restricted stock awards to non-employee Board members. SJW Corp. has recognized an aggregate share-based compensation expense of \$41 and \$140 for the three and six months ended June 30, 2007, respectively, related to restricted and deferred restricted stock awards to non-employee Board members. As of June 30, 2008, the total unrecognized compensation costs were \$1,217. These costs are expected to be recognized over a weighted average period of 2.14 years.

For the three and six months ended June 30, 2008, the tax benefit realized from restricted stock units and deferred stock units issuance amounted to \$266 and \$305, respectively. For the three and six months ended June 30, 2007, the tax benefit realized from restricted stock units and deferred stock units issuance amounted to \$131 and \$151, respectively.

Dividend Equivalent Rights

Under the Incentive Plan, holders of options, restricted stock and deferred restricted stock awards may have the right to receive dividend equivalent rights (DERs) each time a dividend is paid on common shares after the grant date. Stock compensation on DERs is recognized as a liability and recorded against retained earnings on the date dividends are issued. For the three and six months ended June 30, 2008, \$41 and \$88, respectively, related to DERs were recorded against retained earnings and were accrued as a liability. For the three and six months ending June 30, 2007, \$55 and \$118, respectively, related to DERs were recorded against retained earnings and were accrued as a liability.

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

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of SJW Corp.'s common stock at 85% of the fair market value of shares on the purchase date. Under the ESPP, employees can designate up to a maximum of 10% of their base compensation for the purchase of shares of common stock, subject to certain restrictions. A total of 270,400 shares of common stock have been reserved for issuance under the ESPP.

After considering the estimated employee terminations or withdrawals from the plan before the purchase date, SJW Corp.'s related ESPP expenses were \$15 and \$33 for the three and six months ended June 30, 2008, respectively, and \$16 and \$32 for the three and six months ended June 30, 2007, respectively, related to the ESPP.

The total unrecognized compensation costs related to the semi-annual offering period that ends July 31, 2008 for the ESPP is approximately \$7. This cost is expected to be recognized during the third quarter of 2008.

Note 3. Nonregulated Business

The regulated activities of SJW Corp. consist of its subsidiaries, San Jose Water Company, a public utility regulated by the California Public Utilities Commission (CPUC) that operates within a service area approved by the CPUC, and Canyon Lake Water Service Company, which is regulated by the Texas Commission on Environmental Quality. The nonregulated businesses of SJW Corp. are comprised of operating the City of Cupertino Municipal Water Systems and

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lease operations of eight commercial buildings and properties of SJW Land Company. The following table represents the distribution of the regulated and nonregulated business activities for the three and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30, 2008			Three Months Ended June 30, 2007		
	Regulated	Non Regulated	Total	Regulated	Non Regulated	Total
Revenue	\$ 57,075	\$ 2,983	\$ 60,058	52,153	2,982	55,135
Expenses	48,422	2,104	50,526	45,105	1,970	47,075
Operating income	\$ 8,653	\$ 879	\$ 9,532	7,048	1,012	8,060

	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007		
	Regulated	Non Regulated	Total	Regulated	Non Regulated	Total
Revenue	\$ 95,791	\$ 5,520	\$ 101,311	88,728	5,424	94,152
Expenses	82,290	3,719	86,009	77,762	3,921	81,683
Operating income	\$ 13,501	\$ 1,801	\$ 15,302	10,966	1,503	12,469

Note 4. Real Estate Investments

The major components of real estate investments as of June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008	December 31, 2007
Land	\$ 22,369	22,369
Buildings and improvements	65,429	65,429
Intangibles	231	231
Subtotal	88,029	88,029
Less: accumulated depreciation and amortization	4,672	3,834
Total	\$ 83,357	84,195

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

Note 5. Employee Benefit Plans

The components of net periodic benefit costs for San Jose Water Company's pension plan, Executive Supplemental Retirement Plan and other postretirement benefit plan for the three and six months ended June 30, 2008 and 2007 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Service cost	\$ 557	620	\$ 1,114	1,240
Interest cost	1,150	1,068	2,300	2,137
Other cost	266	369	532	738
Expected return on assets	(944)	(885)	(1,887)	(1,771)
	\$ 1,029	1,172	\$ 2,059	2,344

In 2008, SJW Corp. expects to make a contribution of \$3,000 and \$361 to the pension plan and other postretirement benefit plan, respectively.

Note 6. Segment Reporting

SJW Corp. is a holding company with three 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) and (iii) SJWTX, Inc., which is doing business as Canyon Lake Water Service Company (CLWSC), a regulated water utility located in Canyon Lake, Texas. In accordance with Statement of Financial Accounting Standards No. 131,

Disclosures about Segments of an Enterprise and Related Information, 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, provided through SJW Corp.'s subsidiaries, San Jose Water Company and CLWSC, together referred to as the Water Utility Services . The second segment is property management and investment activity conducted by SJW Land Company, the 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.

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The tables below set forth information relating to SJW Corp.'s 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.

	Three Months Ended June 30, 2008			
	Water Utility Services	Real Estate Services	All Other*	SJW Corp.
Operating revenue	58,361	1,697		\$ 60,058
Operating expense	49,487	824	215	\$ 50,526
Net income	5,904	345	29	\$ 6,278
Depreciation and amortization	5,565	419		\$ 5,984
Interest expense	3,134	510	39	\$ 3,683
Income tax expense (benefit) in operations income	4,186	212	(89)	\$ 4,309
Assets	667,022	84,686	36,238	\$ 787,946

	Three Months Ended June 30, 2007			
	Water Utility Services	Real Estate Services	All Other*	SJW Corp.
Operating revenue	53,414	1,721		\$ 55,135
Operating expense	46,101	757	217	\$ 47,075
Net income	4,832	480	94	\$ 5,406
Depreciation and amortization	5,296	376		\$ 5,672
Interest expense	2,718	466	20	\$ 3,204
Income tax expense (benefit) in operations income	3,556	304	(25)	\$ 3,835
Assets	618,651	85,885	41,387	\$ 745,923

	Six Months Ended June 30, 2008			
	Water Utility Services	Real Estate Services	All Other*	SJW Corp.
Operating revenue	97,937	3,374		\$ 101,311
Operating expense	84,025	1,572	412	\$ 86,009
Net income	8,146	747	103	\$ 8,996
Depreciation and amortization	11,208	839		\$ 12,047
Interest expense	6,189	1,037	84	\$ 7,310
Income tax expense (benefit) in operations income	5,799	465	(169)	\$ 6,095
Assets	667,022	84,686	36,238	\$ 787,946

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	Six Months Ended June 30, 2007			
	Water Utility Services	Real Estate Services	All Other*	SJW Corp.
Operating revenue	90,900	3,141	111	\$ 94,152
Operating expense	79,480	1,514	689	\$ 81,683
Net income	6,362	1,023	143	\$ 7,528
Depreciation and amortization	10,599	679	7	\$ 11,285
Interest expense	5,537	838	20	\$ 6,395
Income tax expense (benefit) in operations income	4,660	665	(84)	\$ 5,241
Assets	618,651	85,885	41,387	\$ 745,923

*The All Other category includes SJW Corp. without regard to its subsidiaries. Please refer to Notes to Consolidated Financial Statements in SJW Corp.'s 2007 Annual Report on Form 10-K.

Note 7. 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 construction projects. Refunds of the advance deposit payments constitute an obligation of San Jose Water Company.

Note 8. Adoption of Financial Accounting Standards Board Interpretation No. 48

SJW Corp. adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. The total amount of unrecognized tax benefits, before the impact of deductions for state taxes, excluding interest and penalties was \$1,438 and \$1,407 as of June 30, 2008 and 2007, respectively. The amount of tax benefits, net of any federal benefits for state taxes and inclusive of interest that would impact the effective rate, if recognized, is approximately \$689 and \$662 as of June 30, 2008 and 2007, respectively.

SJW Corp.'s policy is to classify interest and penalties associated with unrecognized tax benefits, if any, in tax expense. Accrued interest expense, net of the benefit of tax deductions which would be available on the payment of such interest, is approximately \$77 and \$90 for the three and six months ended June 30, 2008, respectively, and \$79 and \$91 for the three and six months ended June 30, 2007, respectively. SJW Corp. has not accrued any penalties for unrecognized tax benefits.

SJW Corp. anticipates that its unrecognized tax benefits balance will be reduced by approximately \$295 within the next 12 months following June 30, 2008 due to the lapsing statute of limitations. As of June 30, 2008, a reduction of \$202 was recorded to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations.

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SJW Corp. files U.S. federal income tax returns and income tax returns in various states. The open tax years for the jurisdictions in which SJW Corp. files are as follows:

Jurisdiction	Years Open	
Federal	2004	2007
California	2003	2007
Arizona	2006	2007
Connecticut	2003	2007
Florida	2003	2007
Tennessee	2007	
Texas	2005	2007

Note 9. Fair Value Measurement

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements , which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. It also applies under other accounting pronouncements that require or permit fair value measurements. The fair value hierarchy for disclosure of fair value measurements under SFAS 157 is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices, other than quoted prices included in Level 1, that are observable for the assets or liabilities, either directly or indirectly.
- Level 3: Inputs that are unobservable for the assets or liabilities.

The following table summarizes the assets and liabilities measured at fair value on a recurring basis as required by SFAS 157, as of June 30, 2008:

	Balance as of June 30, 2008	Level 1	Level 2	Level 3
Assets:				
Investment in California Water Service Group	\$ 36,045	\$ 36,045		
Liabilities:				
Postretirement Benefit Plans	\$ 24,816	\$ 24,816		

The FASB has also issued FASB Staff Positions (FSP) 157-1 and 157-2. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13 Accounting for Leases, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement. FSP 157-2 defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Nonfinancial assets and nonfinancial liabilities would include all assets and liabilities other than those meeting the definition of a financial asset or financial liability as defined in paragraph 6 of SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2. SJW Corp. has evaluated the impact of FSP 157-2 and have determined that it will not have a material impact on SJW Corp.'s financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157. SJW Corp. has adopted SFAS 159 and have elected not to measure any additional financial instruments and other items at fair value. SJW Corp.'s adoption of SFAS 159 did not have a material impact on SJW Corp.'s financial position, results of operations or cash flows.

Note 10. Commitment

On April 17, 2006, San Jose Water Company entered into an agreement with Adobe Systems Incorporated (Adobe) for Adobe to purchase approximately one acre of property and buildings located in San Jose, California for a total purchase price of approximately \$4,000. The agreement includes an option for San Jose Water Company to lease-back the buildings until June 2008. The transaction needs to be approved by the CPUC since the property and buildings are utility plant assets. On November 14, 2007, San Jose Water Company entered into a reverse exchange transaction for a property in San Jose, California, which will be the replacement property for the property that San Jose Water Company has entered into an agreement with Adobe to sell. San Jose Water Company has submitted the required documents to the CPUC to seek approval. To date, the CPUC approval has not been obtained for the sale of this property. As a result, the conditions of the reverse exchange have not been met and therefore the sale of this property will not qualify for the treatment as a 1031 reverse exchange. Until the CPUC approves the sale of such property, it is not available for immediate sale and therefore will continue to be classified as a utility plant asset, rather than as an asset held-for-sale, in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

**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, 2007.

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 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. These 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 three 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, 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 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, billing and cash remittance services.

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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 Public Utilities Code, properties currently used and useful in providing utilities services can not be disposed of unless California Public Utilities Commission (CPUC) approval is obtained.

San Jose Water Company also has approximately 1,500 acres of nonutility property which has been identified as no longer used and useful in providing utility services. Approximately 16 acres of the nonutility property are 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., owns the following properties:

Description	Location	Acreage	Square Footage	Percentage of SJW Land Company Revenue
2 Commercial buildings	San Jose, California	2	28,000	13%
Warehouse building	Windsor, Connecticut	17	170,000	11%
Warehouse building	Orlando, Florida	8	147,000	6%
Retail building	El Paso, Texas	2	14,000	5%
Warehouse building	Phoenix, Arizona	11	176,000	12%
Warehouse building	Knoxville, Tennessee	29	346,000	22%
Commercial building	Knoxville, Tennessee	15	148,000	31%
Undeveloped land	Knoxville, Tennessee	10	N/A	N/A
Undeveloped land	San Jose, California	5	N/A	N/A

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 Interpretation No. 46R (FIN46R), Consolidation of Variable Interest Entities, with SJW Land Company as the primary beneficiary, and as a result, it has been consolidated with SJW Land Company.

Canyon Lake Water Service Company (CLWSC) provides service to approximately 8,600 connections that serve approximately 36,000 residents in a service area comprising more than 78 square miles in the growing region between San Antonio and Austin, Texas.

SJW Corp. also owns 1,099,952 shares of California Water Service Group, which represents approximately 5% of that company's outstanding shares as of June 30, 2008.

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) Real estate investment activities in SJW Land Company.
- (4) Out-of-region water and utility related services, primarily in the Western United States.

Regional Regulated Activities

SJW Corp.'s regulated utility operation is conducted through San Jose Water Company, a wholly owned water utility subsidiary that provides water service to the greater metropolitan San Jose area, and CLWSC, a 97.5% owned regulated water utility subsidiary in the state of Texas. SJW Corp. plans and applies a diligent and disciplined approach to improving and maintaining its water system infrastructure. It also seeks to acquire regulated water systems adjacent to or near its existing service territory.

Regional Nonregulated Activities

Operating in accordance with guidelines established by the CPUC, San Jose Water Company provides nonregulated water services under agreements with municipalities and other utilities. Nonregulated services include water system operations, billing and cash remittance processing, maintenance services, and telecommunication antenna leasing.

San Jose Water Company also seeks appropriate nonregulated business opportunities that complement its existing operations or that allow it to extend its core competencies beyond existing operations. San Jose Water Company seeks opportunities to fully utilize its capabilities and existing capacity by providing services to other regional water systems, benefiting its existing regional customers through increased efficiencies.

Real Estate Investment

SJW Land Company's real estate investments diversifies SJW Corp.'s asset base and balances SJW Corp.'s concentration in regulated assets. SJW Land Company implements its real estate investment strategy by exchanging selected real estate assets for investments with a capital structure and risk and return profile that is consistent with SJW Corp.'s consolidated capital structure and risk and return profile.

Out-of-Region Opportunities

SJW Corp. also from time to time, pursues opportunities to participate in out-of-region water and utility related services, particularly regulated water businesses, in the Western United States. SJW Corp. evaluates out-of-region and out-of-state opportunities that meet SJW Corp.'s risk and return profile.

The factors SJW Corp. considers in evaluating such opportunities include:

- regulatory environment;

- synergy potential;

- general economic conditions;

- potential profitability;

- additional growth opportunities within the region;

- water quality and environmental issues; and

- capital requirements.

SJW Corp. cannot be certain it will be successful in consummating any transactions relating to such opportunities. In addition, any transaction will involve numerous risks. Some of the risks include the possibility of paying more than the value derived from the acquisition, the assumption of certain known and unknown liabilities related to the acquired assets, the risk of diverting management's attention from normal daily operations of the business, negative impact to SJW Corp.'s financial condition and operating results, the risks of entering markets in which it 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. The impact and any associated risks related to these policies on SJW Corp. 's business operations are discussed throughout Management 's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect SJW Corp. 's reported and expected financial results. 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 SEC Staff Accounting Bulletin 104, Revenue Recognition.

Metered revenue of San Jose Water Company and CLWSC (together referred to as the Water Utility Services) include 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 read 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 differ from those estimates, which would result in adjusting the operating revenue in the period which the revision to the Water Utility Services estimates are determined. As of June 30, 2008 and December 31, 2007, accrued unbilled revenue was \$18,265 and \$12,654, respectively. Unaccounted-for water on a 12 month-to-date basis for June 30, 2008 and 2007 approximated 7.0% and 6.7%, 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 customer conservation, main replacements and lost water reduction programs.

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 is recognized ratably over the term 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 Statement of Financial Accounting Standards No. 71 (SFAS No. 71), Accounting for the Effects of Certain Types of Regulation. In accordance with SFAS No. 71, 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 obligation 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 has been recognized as of June 30, 2008 and December 31, 2007. The net regulatory assets recorded by San Jose Water Company as of June 30, 2008 and December 31, 2007 were \$44,088 and \$44,712, 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, expected return on plan assets, the rate of future compensation increases 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. Investment decisions have been delegated by the Committee to an Investment Manager, presently Wachovia Securities, LLC. Investment guidelines provided to the Investment Manager require that at least 25% of the plan assets be invested in bonds or cash. As of December 31, 2007, the plan assets consist of approximately 39% bonds, 2% cash and 59% equities. Furthermore, equities are to be diversified by industry groups and selected to achieve preservation of capital coupled with long-term growth through capital appreciation and income. The Investment Manager may only invest in bonds, commercial paper, money market funds with acceptable ratings from Moody's or Standard & Poor's and may not invest in commodities and future contracts, private placements, options, letter stock, speculative securities, or hold more than 5% of assets in any one private corporation. The Investment Manager is reviewed regularly regarding performance 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 13 years for actuarial expense calculation purposes.

San Jose Water Company utilizes each plan's projected benefit stream in conjunction with the Citigroup Pension Discount Curve, which is more designed to reflect AA market discount rates, in determining the discount rate used in calculating the pension and other postretirement benefit liabilities at the measurement date. For the year ending December 31, 2007, the composite discount rate used was 6.50%.

Income Taxes

SJW Corp. estimates its federal and state income taxes as part of the process of preparing the 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 within 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

Pursuant to Section 792.5 of the California Public Utilities Code, a balancing account must be maintained for each expense item for which revenue offsets have been authorized. 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.

A separate balancing account must be maintained for each offset expense item (e.g., purchased water, purchased power and groundwater extraction charges). The balancing account balance 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 balances have to be approved by the CPUC before they can be incorporated into rates, San Jose Water Company does not recognize the balancing account in its revenue until the CPUC authorizes the change in customers' rates. However, had the balancing account been recognized in San Jose Water Company's financial statements, San Jose Water Company's retained earnings would be decreased by the amount of the account over-collection or increased by the amount of the account under-collection, less applicable taxes.

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

In conformance with the 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 CPUC Code Section 851, which states that any gain recognized will be divided with two-thirds going to the customers 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 recognized gain/loss on disposition of nonutility property in accordance with CPUC 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.