

SJW CORP
Form 10-Q
November 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
Commission file number 1-8966
SJW Corp.
(Exact name of registrant as specified in its charter)

California 77-0066628
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

110 West Taylor Street, San Jose, CA 95110
(Address of principal executive offices) (Zip Code)
408-279-7800
(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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 24, 2014, there were 20,238,134 shares of the registrant's Common Stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SJW Corp. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands, except share and per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| OPERATING REVENUE | \$125,430 | 85,238 | \$250,382 | 209,607 |
| OPERATING EXPENSE: | | | | |
| Production Expenses: | | | | |
| Purchased water | 15,616 | 21,092 | 37,288 | 49,525 |
| Power | 3,453 | 3,074 | 7,565 | 5,736 |
| Groundwater extraction charges | 17,286 | 13,142 | 42,250 | 27,257 |
| Other production expenses | 3,073 | 3,080 | 8,936 | 8,675 |
| Total production expenses | 39,428 | 40,388 | 96,039 | 91,193 |
| Administrative and general | 10,574 | 10,706 | 29,534 | 32,285 |
| Maintenance | 3,975 | 3,325 | 10,822 | 9,958 |
| Property taxes and other non-income taxes | 2,872 | 2,686 | 8,251 | 7,769 |
| Depreciation and amortization | 9,467 | 8,787 | 28,447 | 26,346 |
| Total operating expense | 66,316 | 65,892 | 173,093 | 167,551 |
| OPERATING INCOME | 59,114 | 19,346 | 77,289 | 42,056 |
| OTHER (EXPENSE) INCOME: | | | | |
| Interest on long-term debt | (5,050) |) (4,722) |) (14,145) |) (14,045) |
| Mortgage and other interest expense | (347) |) (287) |) (1,076) |) (942) |
| Gain on sale of California Water Service Group stock | — | — | 2,017 | — |
| Gain on sale of real estate investment | 281 | — | 554 | 1,063 |
| Dividend income | 42 | 62 | 147 | 185 |
| Other, net | 57 | 354 | 716 | 1,314 |
| Income before income taxes | 54,097 | 14,753 | 65,502 | 29,631 |
| Provision for income taxes | 15,731 | 5,803 | 19,384 | 11,924 |
| NET INCOME | 38,366 | 8,950 | 46,118 | 17,707 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized income (loss) on investment | (271) |) 185 | (32) |) 450 |
| Reclassification adjustment for gain realized on sale of investments | — | — | (1,171) |) — |
| COMPREHENSIVE INCOME | \$38,095 | 9,135 | \$44,915 | 18,157 |
| EARNINGS PER SHARE | | | | |
| Basic | \$1.90 | 0.44 | \$2.28 | 0.90 |
| Diluted | \$1.88 | 0.44 | \$2.26 | 0.89 |
| DIVIDENDS PER SHARE | \$0.19 | 0.18 | \$0.56 | 0.55 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | | |
| Basic | 20,231,426 | 20,151,729 | 20,213,676 | 19,643,290 |
| Diluted | 20,424,140 | 20,346,817 | 20,402,605 | 19,839,426 |

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)

| | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Utility plant: | | |
| Land | \$ 10,867 | 10,418 |
| Depreciable plant and equipment | 1,327,949 | 1,254,586 |
| Construction in progress | 34,319 | 30,846 |
| Intangible assets | 19,149 | 18,341 |
| | 1,392,284 | 1,314,191 |
| Less accumulated depreciation and amortization | 442,429 | 415,453 |
| | 949,855 | 898,738 |
| Real estate investments | 73,790 | 78,477 |
| Less accumulated depreciation and amortization | 11,201 | 10,658 |
| | 62,589 | 67,819 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 5,599 | 2,299 |
| Accounts receivable: | | |
| Customers, net of allowances for uncollectible accounts | 18,077 | 14,496 |
| Income tax | 1,981 | 1,661 |
| Other | 719 | 476 |
| Accrued unbilled utility revenue | 22,593 | 17,556 |
| Materials and supplies | 1,138 | 1,045 |
| Prepaid expenses | 3,113 | 2,119 |
| Current regulatory assets, net | 17,308 | — |
| | 70,528 | 39,652 |
| OTHER ASSETS: | | |
| Investment in California Water Service Group | 5,815 | 8,885 |
| Unamortized debt issuance, broker and reacquisition costs | 5,343 | 5,176 |
| Net regulatory assets, less current portion | 109,537 | 83,543 |
| Other | 6,437 | 6,173 |
| | 127,132 | 103,777 |
| | \$ 1,210,104 | 1,109,986 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (UNAUDITED)
 (in thousands, except share and per share data)

| | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| CAPITALIZATION AND LIABILITIES | | |
| CAPITALIZATION: | | |
| Shareholders' equity: | | |
| Common stock, \$0.521 par value; authorized 36,000,000 shares; issued and outstanding 20,237,660 shares on September 30, 2014 and 20,169,211 on December 31, 2013 | \$ 10,541 | 10,505 |
| Additional paid-in capital | 64,919 | 63,017 |
| Retained earnings | 278,918 | 244,266 |
| Accumulated other comprehensive income | 2,184 | 3,387 |
| Total shareholders' equity | 356,562 | 321,175 |
| Long-term debt, less current portion | 384,514 | 334,997 |
| | 741,076 | 656,172 |
| CURRENT LIABILITIES: | | |
| Line of credit | 8,200 | 22,400 |
| Current portion of long-term debt | 624 | 554 |
| Accrued groundwater extraction charges and purchased water | 10,394 | 7,116 |
| Purchased power | 1,247 | 665 |
| Accounts payable | 12,311 | 12,587 |
| Accrued interest | 5,914 | 5,369 |
| Accrued property taxes and other non-income taxes | 3,123 | 1,618 |
| Accrued payroll | 3,822 | 3,198 |
| Other current liabilities | 6,118 | 5,688 |
| | 51,753 | 59,195 |
| DEFERRED INCOME TAXES | 157,820 | 140,736 |
| UNAMORTIZED INVESTMENT TAX CREDITS | 1,330 | 1,375 |
| ADVANCES FOR CONSTRUCTION | 71,830 | 70,043 |
| CONTRIBUTIONS IN AID OF CONSTRUCTION | 135,080 | 132,260 |
| DEFERRED REVENUE | 1,346 | 1,213 |
| POSTRETIREMENT BENEFIT PLANS | 44,329 | 43,496 |
| OTHER NONCURRENT LIABILITIES | 5,540 | 5,496 |
| COMMITMENTS AND CONTINGENCIES | — | — |
| | \$ 1,210,104 | 1,109,986 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Nine months ended September 30, | |
|---|------------------------------------|-----------------|
| | 2014 | 2013 |
| OPERATING ACTIVITIES: | | |
| Net income | \$46,118 | 17,707 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 29,635 | 27,510 |
| Deferred income taxes | 18,488 | 10,211 |
| Share-based compensation | 774 | 786 |
| Gain on sale of real estate investment | (554) | (1,063) |
| Gain on sale of California Water Service Group stock | (2,017) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and accrued unbilled utility revenue | (8,638) | (13,067) |
| Accounts payable, purchased power and other current liabilities | 1,047 | (1,948) |
| Accrued groundwater extraction charges and purchased water | 3,278 | 6,109 |
| Tax receivable and accrued taxes | 1,428 | 2,517 |
| Postretirement benefits | 833 | 4,312 |
| Regulatory asset related to balancing and memorandum accounts | (43,331) | (3,536) |
| Other changes, net | (1,160) | (2,326) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 45,901 | 47,212 |
| INVESTING ACTIVITIES: | | |
| Additions to utility plant: | | |
| Company-funded | (70,255) | (59,503) |
| Contributions in aid of construction | (7,311) | (8,280) |
| Additions to real estate investments | (9) | (4,177) |
| Payments for business/asset acquisition and water rights | (1,584) | (1,587) |
| Cost to retire utility plant, net of salvage | (874) | (1,814) |
| Proceeds from sale of real estate investment | 4,572 | 8,831 |
| Proceeds from sale of California Water Service Group stock | 3,056 | — |
| NET CASH USED IN INVESTING ACTIVITIES | (72,405) | (66,530) |
| FINANCING ACTIVITIES: | | |
| Borrowings from line of credit | 51,200 | 25,200 |
| Repayments of line of credit | (65,400) | (33,500) |
| Long-term borrowings | 50,000 | — |
| Repayments of long-term borrowings | (413) | (5,258) |
| Dividends paid | (11,373) | (10,764) |
| Issuance of common stock, net of issuance costs | — | 35,894 |
| Exercise of stock options and similar instruments | 917 | 878 |
| Tax benefits realized from share options exercised | 306 | 27 |
| Receipts of advances and contributions in aid of construction | 6,601 | 9,233 |
| Refunds of advances for construction | (2,034) | (1,695) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 29,804 | 20,015 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 3,300 | 697 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 2,299 | 2,522 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$5,599 | 3,219 |

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| | | |
|--|-----------|---------|
| Cash paid during the period for: | | |
| Interest | \$ 15,651 | 15,478 |
| Income taxes | 1,930 | 2,185 |
| Supplemental disclosure of non-cash activities: | | |
| (Decrease) increase in accrued payables for construction costs capitalized | (296 |) 4,141 |
| Utility property installed by developers | 3,242 | 190 |
| Increase in real estate investments due to accrued tenant improvements | — | 379 |
| Accrued intangible assets and other charges related to water supply project in Texas | — | 2,209 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

Note 1. General

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the results for the interim periods.

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in accordance with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). The Notes to Consolidated Financial Statements in SJW Corp.'s 2013 Annual Report on Form 10-K should be read with the accompanying unaudited condensed consolidated financial statements.

Water sales are seasonal in nature and influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater, and lower in the winter months when cooler temperatures and increased rainfall curtail water usage and sales. Our service area in California is in the midst of a record drought. In response to this, on January 17, 2014, Governor Edmund G. Brown Jr. proclaimed a State of Emergency and directed state officials to take necessary actions to prepare for drought conditions.

The Santa Clara Valley Water District ("SCVWD"), San Jose Water Company's water wholesaler, has set a target of a 20% reduction for water use in 2014 in accordance with its adopted water shortage contingency plan and recommended that its retail water and municipal customers implement mandatory measures to meet the target. Effective March 31, 2014, San Jose Water Company received approval from the California Public Utilities Commission ("CPUC") for a Mandatory Conservation Revenue Adjustment Memorandum Account ("MCRAMA") to track any revenue shortfall and a Mandatory Conservation Memorandum Account ("MCMA") to track operational and administrative costs associated with implementation of the 20% conservation goal. San Jose Water Company will record the impact of the MCRAMA and MCMA regulatory accounts once probability of recovery can be determined and collection can be assured within 24 months after the end of the fiscal year in which the revenue is recorded. For further discussion, please see Note 9.

On August 14, 2014, the CPUC issued a decision on San Jose Water Company's General Rate Case filing for the years 2013-2015. The decision authorized an increase of revenue for 2013 and 2014 and provided authorization to file to increase rates for 2015 in November 2014. San Jose Water Company was also authorized to file for a surcharge to true-up the difference between interim rates and authorized rates. On September 29, 2014, the CPUC approved a surcharge of \$46,700 to true-up the difference between interim rates and authorized rates as well as one-time refunds of \$200. For further discussion, please see Notes 9 and 10.

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 2014 Employee Stock Purchase Plan ("2014 ESPP"). For the three months ended September 30, 2014 and 2013, 180 and 452 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively. For the nine months ended September 30, 2014 and 2013, 1,309 and 1,597 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively.

A portion of depreciation expense is allocated to administrative and general expense. For the three months ended September 30, 2014 and 2013, the amounts allocated to administrative and general expense were \$396 and \$385,

respectively. For the nine months ended September 30, 2014 and 2013, the amounts allocated to administrative and general expense were \$1,188 and \$1,164, respectively.

Note 2. Equity Plans

SJW Corp. accounts for share-based compensation based on the grant date fair value of the awards issued to employees in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (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.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

The Incentive Plan allows SJW Corp. to provide employees, non-employee board members or the board of directors of any parent or subsidiary, consultants, and other independent advisors who provide services to the company or any parent or subsidiary the opportunity to acquire an equity interest in SJW Corp. The types of awards included in the Incentive Plan are restricted stock awards, restricted stock units, performance shares, or other share-based awards. As of September 30, 2014, the remaining shares available for issuance under the Incentive Plan were 1,073,817, and 346,296 shares were issuable upon the exercise of outstanding options, restricted stock units, and deferred restricted stock units. In addition, shares are issued to employees under the ESPP. SJW Corp. also had a Dividend Reinvestment and Stock Purchase Plan (“DRSPP”) which allowed eligible participants to buy shares and reinvest cash dividends in SJW Corp. common stock. The DRSPP was terminated effective as of April 14, 2014.

The compensation costs charged to income are recognized on a straight-line basis over the requisite service period. A summary of compensation costs charged to income, proceeds from the exercise of stock options and similar instruments, and the tax benefit realized from stock options and similar instruments exercised, that were recorded to additional paid-in capital and common stock, by award type, are presented below for the three and nine months ended September 30, 2014 and 2013.

| | Three months ended | | Nine months ended | |
|--|--------------------|-------|-------------------|------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Adjustments to additional paid-in capital and common stock for: | | | | |
| Compensation costs charged to income: | | | | |
| ESPP | \$76 | 70 | \$148 | 128 |
| Restricted stock and deferred restricted stock | 247 | 127 | 626 | 658 |
| Total compensation costs charged to income | \$323 | 197 | \$774 | 786 |
| Excess tax benefits realized from share options exercised and stock issuance: | | | | |
| Stock options | \$— | 27 | \$59 | 27 |
| Restricted stock and deferred restricted stock | (3 |) (95 |) 247 | — |
| Total excess tax benefits realized from share options exercised and stock issuance | \$(3 |) (68 |) \$306 | 27 |
| Proceeds from the exercise of stock options and similar instruments: | | | | |
| Stock options | \$— | 96 | \$44 | 96 |
| DRSPP | — | 21 | 34 | 59 |
| ESPP | 433 | 395 | 839 | 723 |
| Total proceeds from the exercise of stock options and similar instruments | \$433 | 512 | \$917 | 878 |

Stock, Restricted Stock and Deferred Restricted Stock

On January 2, 2014, restricted stock units covering an aggregate of 21,790 shares of common stock of SJW Corp. were granted to certain executives of SJW Corp. and its subsidiaries. The units vest in three equal successive installments upon completion of each year of service with no dividend equivalent rights. Share-based compensation expense based on a grant date fair value of \$26.80 per unit is being recognized over the service period beginning in 2014.

On January 31, 2014, restricted stock units covering an aggregate of 3,845 shares of common stock of SJW Corp. were granted to an executive of SJW Corp. and its subsidiaries. The units vest in three equal successive installments upon completion of each year of service with no dividend equivalent rights. Share-based compensation expense based on a grant date fair value of \$26.39 per unit is being recognized over the service period beginning in 2014.

On April 30, 2014, restricted stock units covering an aggregate of 9,002 shares of common stock of SJW Corp. were granted to the non-employee board members of SJW Corp. The units vest upon continuous board service through the day immediately preceding the date of the next annual shareholder meeting with no dividend equivalent rights. Share-based compensation expense based on grant date fair value of \$26.48 per unit is being recognized over the service period beginning in 2014.

On August 4, 2014, a total of 36,988 restricted stock units were granted to a key employee of SJW Corp. which includes performance-based restricted stock units covering a target number of shares of SJW Corp.'s common stock equal to 19,917 that will convert, if earned, between August 4, 2014 and December 31, 2017, based on the terms of the award. The number of shares issuable under the award, ranging between 0% and 200% of the target number of shares, is based on the level of actual attainment of specified performance goals. These units do not include dividend equivalent rights. The fair value of the

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SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

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 \$26.81 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. The remainder of restricted stock units granted, 17,071 units, will vest in three equal successive installments upon completion of each year of service, beginning from January 1, 2015, with no dividend equivalent rights. Share-based compensation expense based on a grant date fair value of \$24.14 per unit is being recognized over the service period beginning in 2015.

As of September 30, 2014, the total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to \$1,863. This cost is expected to be recognized over a remaining weighted-average period of 1.58 years.

Employee Stock Purchase Plan

The 2014 ESPP allows eligible employees to purchase shares of SJW Corp.'s common stock at 85% of the fair value of shares on the purchase date. Under the 2014 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 400,000 shares of common stock have been reserved for issuance under the 2014 ESPP.

After considering estimated employee terminations or withdrawals from the plan before the purchase date, SJW Corp.'s recorded expenses were \$37 and \$112 for the three and nine months ended September 30, 2014, respectively, and \$34 and \$102 for the three and nine months ended September 30, 2013, respectively, related to the 2014 ESPP. The total unrecognized compensation costs related to the semi-annual offering period that ends January 30, 2015 for the 2014 ESPP is approximately \$48. This cost is expected to be recognized during the fourth quarter of 2014 and first quarter of 2015.

Dividend Reinvestment and Stock Purchase Plan

SJW Corp. adopted the DRSP effective April 19, 2011. The DRSP offered shareholders the ability to reinvest cash dividends in SJW Corp. common stock and also purchase additional shares of SJW Corp. common stock. A total of 3,000,000 shares of common stock were reserved for issuance under the DRSP. For the three and nine months ended September 30, 2014, 0 and 1,151 shares, respectively, were issued under the DRSP. For the three and nine months ended September 30, 2013, 829 and 2,273 shares, respectively, have been issued under the DRSP.

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

Note 3. Real Estate Investments

The major components of real estate investments as of September 30, 2014 and December 31, 2013 are as follows:

| | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| Land | \$17,297 | 18,892 |
| Buildings and improvements | 56,164 | 59,256 |
| Intangibles | 329 | 329 |
| Subtotal | 73,790 | 78,477 |
| Less: accumulated depreciation and amortization | 11,201 | 10,658 |
| Total | \$62,589 | 67,819 |

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

On August 1, 2014, San Jose Water Company sold a nonutility property located in San Jose, California for \$300. SJW Corp. recognized a pre-tax gain on the sale of real estate investment of \$281, after selling expense of \$10.

On June 30, 2014, SJW Land Company sold its retail building located in El Paso, Texas for \$4,450. SJW Corp. recognized a pre-tax gain on the sale of real estate investment of \$273, after selling expenses of \$169.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

On February 1, 2013, SJW Land Company sold its warehouse building located in Windsor, Connecticut for \$9,200. SJW Corp. recognized a pre-tax gain on the sale of real estate investment of \$1,063, after selling expenses of \$369.

Note 4. Income Taxes

SJW Corp. accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Measurement of the deferred tax assets and liabilities is at enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

In the second quarter of 2014, SJW Corp. recorded \$880 in State of California enterprise zone sales and use taxes credits related to tax years 2008 through 2012.

On September 13, 2013, the Department of Treasury and the Internal Revenue Service issued final tangible property regulations under provisions that generally are intended to simplify, clarify and make more administrable the 2011 temporary and proposed tangible property regulations. These regulations broadly apply to amounts to acquire, produce or improve tangible property, as well as dispositions of such property and provide criteria for determining whether such amounts can be deducted or should be capitalized as part of the asset. The final regulations generally are effective for tax years beginning on or after January 1, 2014. During the third quarter of 2014, management completed its evaluation of the capitalization elections under the new regulations in order to establish its method of complying with the new regulations and record the impact in the consolidated financial statements. To comply with the new regulations, SJW Corp. will apply the accounting method change in its 2014 tax returns for the expensing of certain utility asset improvement costs for tax purposes as of December 31, 2013 that were previously being capitalized for book and tax purposes. As of September 30, 2014, the estimated 2014 federal and state repairs and maintenance deduction under the new methodology was \$19,395, resulting in an estimated \$5,091 Federal deferred tax liability and a state income tax benefit of \$853. During the third quarter of 2014, SJW Corp. also completed a detailed analysis of the repairs and maintenance deduction related to 2013 and prior years, and recorded the estimated federal and state impact in the consolidated financial statements as of September 30, 2014. SJW Corp.'s Internal Revenue Code ("IRC") §481(a) adjustment for Federal purposes was estimated to be \$41,171 and resulted in a \$14,410 deferred tax liability as of September 30, 2014. SJW Corp.'s IRC §481(a) adjustment for state purposes was estimated to be \$83,524 and resulted in a \$4,799 reduction to state income tax expense for the three and nine months ended September 30, 2014.

Note 5. Defined Benefit Plan

San Jose Water Company sponsors a noncontributory defined benefit pension plan for its eligible employees. Employees hired before March 31, 2008 are entitled to receive retirement benefits using a formula based on the employee's three highest years of compensation (whether or not consecutive). For employees hired on or after March 31, 2008, benefits are determined using a cash balance formula based on compensation credits and interest credits for each employee. Officers hired before March 31, 2008 are eligible to receive additional retirement benefits under the Executive Supplemental Retirement Plan, and officers hired on or after March 31, 2008 are eligible to receive additional retirement benefits under the Cash Balance Executive Supplemental Retirement Plan. Both plans are non-qualified plans in which only officers and other designated members of management may participate. San Jose Water Company also provides health care and life insurance benefits for retired employees under the San Jose Water Company Social Welfare Plan. The components of net periodic benefit costs for San Jose Water Company's pension plan, its Executive Supplemental Retirement Plan, Cash Balance Executive Supplemental Retirement Plan and Social Welfare Plan for the three and nine months ended September 30, 2014 and 2013 are as follows:

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| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------|----------------------------------|----------|---------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Service cost | \$1,056 | 1,239 | \$3,167 | 3,717 |
| Interest cost | 1,651 | 1,475 | 4,954 | 4,425 |
| Other cost | 627 | 1,208 | 1,883 | 3,624 |
| Expected return on assets | (1,670 |) (1,380 |) (5,011 |) (4,140 |
| | \$1,664 | 2,542 | \$4,993 | 7,626 |

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SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

The following tables summarize the fair values of plan assets by major categories as of September 30, 2014 and December 31, 2013:

| | | Fair Value Measurements at September 30, 2014 | | | |
|---------------------------|--|---|--|--|--|
| | | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Asset Category | Benchmark | | | | |
| Cash and cash equivalents | | \$7,261 | \$7,261 | \$— | \$— |
| Actively Managed (a): | | | | | |
| All Cap Equity | Russell 3000 Value | 2,402 | 2,378 | 24 | — |
| U.S. Large Cap Equity | Russell 1000, Russell 1000 Growth, Russell 1000 Value | 35,541 | 35,541 | — | — |
| U.S. Mid Cap Equity | Russell Mid Cap, Russell Mid Cap Growth, Russell Mid Cap Value | 5,731 | 5,731 | — | — |
| U.S. Small Cap Equity | Russell 2000, Russell 2000 Growth, Russell 2000 Value | 3,010 | 3,010 | — | — |
| Non-U.S. Large Cap Equity | MSCI EAFE | 4,832 | 4,832 | — | — |
| REIT | NAREIT - Equity REIT'S | 4,480 | — | 4,480 | — |
| Fixed Income (b) | (b) | 35,747 | — | 35,747 | — |
| Total | | \$99,004 | \$58,753 | \$40,251 | \$— |

The Plan has a current target allocation of 55% invested in a diversified array of equity securities to provide long-term capital appreciation and 45% invested in a diversified array of fixed income securities to provide preservation of capital plus generation of income.

(a) Actively managed portfolio of securities with the goal to exceed the stated benchmark performance.

(b) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays 1-5 Year Government/Credit, Barclays Intermediate Government/Credit, and Merrill Lynch Preferred Stock Fixed Rate.

| | | Fair Value Measurements at December 31, 2013 | | | |
|---------------------------|-------------------|--|--|--|--|
| | | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Asset Category | Benchmark | | | | |
| Cash and cash equivalents | | \$9,127 | \$9,127 | \$— | \$— |
| Actively Managed (a): | | | | | |
| All Cap Equity | Russell 3000 Vaue | 283 | 266 | 17 | — |

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| | | | | | |
|---------------------------|--|----------|----------|----------|-----|
| U.S. Large Cap Equity | Russell 1000, Russell 1000 Growth, Russell 1000 Value | 32,286 | 32,286 | — | — |
| U.S. Mid Cap Equity | Russell Mid Cap, Russell Mid Cap Growth, Russell Mid Cap Value | 5,551 | 5,551 | — | — |
| U.S. Small Cap Equity | Russell 2000, Russell 2000 Growth, Russell 2000 Value | 3,236 | 3,236 | — | — |
| Non-U.S. Large Cap Equity | MSCI EAFE | 5,066 | 5,066 | — | — |
| REIT | NAREIT - Equity REIT'S | 3,913 | — | 3,913 | — |
| Fixed Income (b) | (b) | 35,891 | — | 35,891 | — |
| Total | | \$95,353 | \$55,532 | \$39,821 | \$— |

The Plan has a current target allocation of 55% invested in a diversified array of equity securities to provide long-term capital appreciation and 45% invested in a diversified array of fixed income securities to provide preservation of capital plus generation of income.

(a) Actively managed portfolio of securities with the goal to exceed the stated benchmark performance.

(b) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays 1-5 Year Government/Credit, Barclays Intermediate Government/Credit, and Merrill Lynch Preferred Stock Fixed Rate.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

In 2014, San Jose Water Company expects to make required and discretionary cash contributions of up to \$5,946 to the pension plans and Social Welfare Plan. For the three and nine months ended September 30, 2014, \$1,819 and \$3,638, respectively, has been contributed to the pension plans and Social Welfare Plan.

Note 6. Segment and Nonregulated Business Reporting

SJW Corp. is a holding company with four subsidiaries: (i) San Jose Water Company, a water utility which operates both regulated and nonregulated businesses, (ii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operate commercial building rentals, (iii) SJW TX, Inc. which is doing business as Canyon Lake Water Service Company (“CLWSC”), a regulated water utility located in Canyon Lake, Texas, and its consolidated nonregulated variable interest entity, Acequia Water Supply Corporation, and (iv) Texas Water Alliance Limited, a nonregulated water utility operation which is undertaking activities that are necessary to develop a water supply project in Texas. In accordance with FASB ASC Topic 280 – “Segment Reporting,” SJW Corp. has determined that it has two reportable business segments. The first segment is that of providing water utility and utility-related services to its customers through SJW Corp.’s subsidiaries, San Jose Water Company, Canyon Lake Water Service Company, and Texas Water Alliance Limited, together referred to as “Water Utility Services.” The second segment is property management and investment activity conducted by SJW Land Company, referred to as “Real Estate Services.” SJW Corp.’s reportable segments have been determined based on information used by the chief operating decision maker. SJW Corp.’s chief operating decision maker is its Chairman, President and Chief Executive Officer (“CEO”). The CEO reviews financial information presented on a consolidated basis that is accompanied by disaggregated information about operating revenue, net income and total assets, by subsidiaries.

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 September 30, 2014

| | Water Utility Services | | Real Estate Services | All Other* | SJW Corp. | | Total |
|--|------------------------|---------------|----------------------|---------------|-----------|---------------|-----------|
| | Regulated | Non regulated | Non regulated | Non regulated | Regulated | Non regulated | |
| Operating revenue | \$121,921 | 1,739 | 1,770 | — | 121,921 | 3,509 | 125,430 |
| Operating expense | 63,518 | 1,508 | 1,041 | 249 | 63,518 | 2,798 | 66,316 |
| Operating income (loss) | 58,403 | 231 | 729 | (249) | 58,403 | 711 | 59,114 |
| Net income (loss) | 37,907 | 68 | 795 | (404) | 37,907 | 459 | 38,366 |
| Depreciation and amortization | 8,984 | 89 | 394 | — | 8,984 | 483 | 9,467 |
| Senior note, mortgage and other interest expense | 4,573 | — | 262 | 562 | 4,573 | 824 | 5,397 |
| Income tax expense (benefit) in net income | 16,394 | 73 | (441) | (295) | 16,394 | (663) | 15,731 |
| Assets | \$1,121,925 | 17,606 | 66,457 | 4,116 | 1,121,925 | 88,179 | 1,210,104 |

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

| | For Three Months Ended September 30, 2013 | | | | | | |
|--|---|---------------|----------------------|---------------|-----------|---------------|-----------|
| | Water Utility Services | | Real Estate Services | All Other* | SJW Corp. | | Total |
| | Regulated | Non regulated | Non regulated | Non regulated | Regulated | Non regulated | |
| Operating revenue | \$81,894 | 1,859 | 1,485 | — | 81,894 | 3,344 | 85,238 |
| Operating expense | 63,260 | 1,538 | 820 | 274 | 63,260 | 2,632 | 65,892 |
| Operating income (loss) | 18,634 | 321 | 665 | (274) | 18,634 | 712 | 19,346 |
| Net income (loss) | 9,114 | 109 | 132 | (405) | 9,114 | (164) | 8,950 |
| Depreciation and amortization | 8,293 | 90 | 404 | — | 8,293 | 494 | 8,787 |
| Senior note, mortgage and other interest expense | 4,197 | — | 268 | 544 | 4,197 | 812 | 5,009 |
| Income tax expense (benefit) in net income | 5,840 | 135 | 132 | (304) | 5,840 | (37) | 5,803 |
| Assets | \$1,053,710 | 16,443 | 71,176 | 8,511 | 1,053,710 | 96,130 | 1,149,840 |
| | For Nine Months Ended September 30, 2014 | | | | | | |
| | Water Utility Services | | Real Estate Services | All Other* | SJW Corp. | | Total |
| | Regulated | Non regulated | Non regulated | Non regulated | Regulated | Non regulated | |
| Operating revenue | \$240,514 | 4,520 | 5,348 | — | 240,514 | 9,868 | 250,382 |
| Operating expense | 165,623 | 3,596 | 3,118 | 756 | 165,623 | 7,470 | 173,093 |
| Operating income (loss) | 74,891 | 924 | 2,230 | (756) | 74,891 | 2,398 | 77,289 |
| Net income (loss) | 44,401 | 351 | 1,379 | (13) | 44,401 | 1,717 | 46,118 |
| Depreciation and amortization | 26,950 | 269 | 1,228 | — | 26,950 | 1,497 | 28,447 |
| Senior note, mortgage and other interest expense | 12,793 | — | 761 | 1,667 | 12,793 | 2,428 | 15,221 |
| Income tax expense (benefit) in net income | 19,154 | 314 | (15) | (69) | 19,154 | 230 | 19,384 |
| Assets | \$1,121,925 | 17,606 | 66,457 | 4,116 | 1,121,925 | 88,179 | 1,210,104 |
| | For Nine Months Ended September 30, 2013 | | | | | | |
| | Water Utility Services | | Real Estate Services | All Other* | SJW Corp. | | Total |
| | Regulated | Non regulated | Non regulated | Non regulated | Regulated | Non regulated | |
| Operating revenue | \$201,149 | 4,524 | 3,934 | — | 201,149 | 8,458 | 209,607 |
| Operating expense | 159,845 | 4,573 | 2,378 | 755 | 159,845 | 7,706 | 167,551 |
| Operating income (loss) | 41,304 | (49) | 1,556 | (755) | 41,304 | 752 | 42,056 |
| Net income (loss) | 18,400 | (291) | 801 | (1,203) | 18,400 | (693) | 17,707 |
| Depreciation and amortization | 24,879 | 270 | 1,197 | — | 24,879 | 1,467 | 26,346 |
| | 12,495 | — | 853 | 1,639 | 12,495 | 2,492 | 14,987 |

Senior note, mortgage and
other interest expense

| | | | | | | | |
|---|-------------|--------|--------|--------|-----------|--------|-----------|
| Income tax expense (benefit) in net income | 12,141 | 48 | 639 | (904) | 12,141 | (217) | 11,924 |
| Assets | \$1,053,710 | 16,443 | 71,176 | 8,511 | 1,053,710 | 96,130 | 1,149,840 |

* The "All Other" category includes the accounts of SJW Corp. on a stand-alone basis.

Note 7. Long-Term Liabilities and Bank Borrowings

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.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

On January 24, 2014, San Jose Water Company entered into a note agreement with John Hancock Life Insurance Company (U.S.A.) and its affiliate (the “Purchaser”), pursuant to which San Jose Water Company agreed to sell an aggregate principal amount of \$50,000 of its 5.14% senior note, Series L to the Purchaser. The senior note is an unsecured obligation of San Jose Water Company, due on the date that is the 30th anniversary of the issuance of the senior note. Interest is payable semi-annually in arrears on March 1 and September 1 of each year, commencing March 1, 2015. The transaction closed on August 7, 2014.

On June 23, 2014, San Jose Water Company, SJW Corp., SJW Land Company and Wells Fargo Bank, National Association (“Wells Fargo”) amended their respective credit agreements dated as of March 1, 2012, to extend the maturity date to September 1, 2016. In addition, San Jose Water Company and Wells Fargo increased the maximum principal amount available for borrowing from \$75,000 to \$85,000.

On August 1, 2014, San Jose Water Company, SJW Corp., SJW Land Company and Wells Fargo amended their respective credit agreements dated as of March 1, 2012, to modify the period during which the borrower is required to maintain a zero balance under the credit agreement for 30 consecutive days.

Note 8. Fair Value Measurement

The following instruments are not measured at fair value on the SJW Corp.'s condensed consolidated balance sheets as of September 30, 2014, but require disclosure of their fair values: cash and cash equivalents, accounts receivable and accounts payable. The estimated fair value of such instruments as of September 30, 2014 approximates their carrying value as reported on the condensed consolidated balance sheets. The fair value of such financial instruments are determined using the income approach based on the present value of estimated future cash flows. There have been no changes in our valuation technique during the three months ended September 30, 2014. The fair value of these instruments would be categorized as Level 2 in the fair value hierarchy, with the exception of cash and cash equivalents, which would be categorized as Level 1. The fair value of pension plan assets is discussed in Note 5. The fair value of SJW Corp.'s long-term debt was approximately \$469,092 and \$395,684 as of September 30, 2014 and December 31, 2013, respectively, and was determined using a discounted cash flow analysis, based on the current rates for similar financial instruments of the same duration and creditworthiness of the company. The book value of the long-term debt was \$385,138 and \$335,551 as of September 30, 2014 and December 31, 2013, respectively. The fair value of long-term debt would be categorized as Level 2 in the fair value hierarchy.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

The following table summarizes the fair value of the SJW Corps.'s investment in California Water Service Group as of September 30, 2014 and December 31, 2013:

| | Fair Value Measurements at September 30, 2014 | | | |
|--|--|--|--|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Assets: | | | | |
| Investment in California Water Service Group | \$5,815 | 5,815 | — | — |
| | | | | |
| | Fair Value Measurements at December 31, 2013 | | | |
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Assets: | | | | |
| Investment in California Water Service Group | \$8,885 | 8,885 | — | — |

Note 9. Regulatory Rate Filings

On February 28, 2014, San Jose Water Company submitted Advice Letter No. 456. In this advice letter, San Jose Water Company notified the CPUC that San Jose Water Company was implementing conservation Tariff Rule 14.1. The CPUC's Rule 14.1 provides voluntary conservation measures for customers, focusing primarily on outdoor water use which accounts for 50% of a typical customer's water usage. In addition, San Jose Water Company requested the implementation of a MCMA to track all operational and administrative costs associated with the implementation of Rule 14.1 and implementation of a MCRAMA to track any revenue shortfall associated with the implementation of the 20% conservation goal. The advice letter was approved on March 21, 2014 and the Rule 14.1 voluntary conservation measures, the MCMA, and MCRAMA all went into effect on March 31, 2014. San Jose Water Company will record the impact of the MCRAMA and MCMA regulatory accounts once probability of recovery can be determined and collection can be assured within 24 months of the year-end the revenue is recorded.

On August 14, 2014, the CPUC issued Decision No. 14-08-006 in San Jose Water Company's General Rate Case filing for the years 2013-2015. This Decision resolved all issues in San Jose Water Company's General Rate Case and closed the proceeding. The Decision authorized an increase of revenue of \$22,102, or 9.81%, for 2013 and \$13,274, or 5.21% for 2014, and provides San Jose Water Company authorization to file to increase rates for 2015 in November 2014. Additionally, due to the nearly 20 month delay in receiving the Decision, San Jose Water Company was authorized to file for a surcharge to true-up the difference between interim rates (i.e. rates that were actually in effect since January 1, 2013) and authorized rates (i.e. rates that should have been effect since January 1, 2013). The

Company filed for this surcharge on August 29, 2014 with Advice Letter No. 465, requesting the CPUC to implement a surcharge to recover balances in San Jose Water Company's 2013 General Rate Case Interim Rates Memorandum Account. In this filing, San Jose Water Company sought to recover \$46,700 of revenue which was not collected over the period of January 1, 2013 through August 14, 2014 due to the delayed decision in San Jose Water Company's General Rate Case Application. The retroactive adjustment reflects the impact of actual usage compared to what was authorized in the Decision for 2013 and the combined impact of 2013 and 2014 rate increases for 2014. This recovery was authorized in Decision No. 14-08-006. San Jose Water Company intends to recover the uncollected revenue over a three-year period via a \$0.2888 per CCF surcharge applied to all customer usage as authorized in the 2012 General Rate Case. This surcharge was approved by the CPUC effective September 29, 2014.

On October 3, 2013, CLWSC filed a rate case with the Texas Commission on Environmental Quality ("TCEQ"). The filing contained a request for an average system-wide rate increase of 23.1%, or \$2,400. With the exception of customers served

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

within the City of Bulverde, the new rates became effective on December 2, 2013. Subsequently, effective March 1, 2014, a rate settlement agreement was reached with the City of Bulverde with rate increases being phased-in over a 28-month period. Prior to approval by the TCEQ, the new rates are subject to adjustment and refund for customers outside the City of Bulverde. A preliminary hearing in the matter for customers outside the City of Bulverde was completed on July 22, 2014. A settlement proposal was submitted for the commission's consideration on November 3, 2014, and a decision is expected in the fourth quarter of 2014. CLWSC has recognized the average 23.1% increase in accordance with ASC Topic 980 which provides guidance when a regulated entity is permitted to bill requested rate increases before the regulator has ruled on the request. If information becomes available that indicates it is probable that any of the average 23.1% rate increase will need to be refunded and the amount of refund can be reasonably estimated, a loss contingency shall be accrued. CLWSC has determined at this time that it is not probable that any of the rate increase will need to be refunded. Management does not anticipate that the final TCEQ decision will materially affect SJW Corp.'s financial position, results of operations or cash flows.

Note 10. Balancing and Memorandum Account Recovery Procedures

For California, the CPUC has established a balancing account mechanism for the purpose of tracking the under-collection or over-collection associated with expense changes and the revenue authorized by the CPUC to offset those expense changes. San Jose Water Company also maintains memorandum accounts to track revenue impacts due to catastrophic events, unforeseen water quality expenses related to new federal and state water quality standards, energy efficiency, cost of capital, any revenue requirement impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, and other approved activities or as directed by the CPUC.

Balancing and memorandum accounts are recognized in revenue by San Jose Water Company when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process. In addition, in the case of special revenue programs such as the MCRAMA, collection of the account balance must occur within 24 months of the end of the year the revenue is recorded. In assessing the probability criteria for balancing and memorandum accounts between general rate cases, San Jose Water Company considers evidence that may exist prior to CPUC authorization that would satisfy FASB ASC Topic 980 - "Regulated Operations," subtopic 340-25 recognition criteria. Such evidence may include regulatory rules and decisions, past practices, and other facts and circumstances that would indicate that recovery or refund is probable. When such evidence provides sufficient support for balance recognition, the balances are recorded in SJW Corp.'s financial statements.

San Jose Water Company met the recognition requirements for certain of its balancing and memorandum accounts and certain amounts subject to balancing and memorandum accounts and increased revenue and regulatory assets as follows:

| | Three months ended September 30, 2014 | | | | Three months ended September 30, 2013 | | | |
|---------------------|---------------------------------------|------------------|---------------------------|----------------|---------------------------------------|------------------|---------------------------|----------------|
| | Beginning Balance | Revenue Increase | (Reduction) (Collections) | Ending Balance | Beginning Balance | Revenue Increase | (Reduction) (Collections) | Ending Balance |
| Memorandum accounts | \$(1,511) | (154) | 23 | (1,642) | \$(1,558) | (279) | — | (1,837) |
| Balancing accounts: | | | | | | | | |
| Water supply costs | (1,221) | 2,477 | (17) | 1,239 | (1,833) | 679 | — | (1,154) |

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| | | | | | | | | | | |
|-------------------|----------|--------|---|------|---|--------|---------|-------|---|-------|
| Pension | 9,672 | (6,625 |) | (123 |) | 2,924 | 8,307 | 825 | — | 9,132 |
| 2012 General | — | 46,456 | | — | | 46,456 | — | — | — | — |
| Rate Case true-up | | | | | | | | | | |
| All others | 1,858 | (81 |) | (9 |) | 1,768 | 1,314 | 536 | — | 1,850 |
| Total balancing | \$10,309 | 42,227 | | (149 |) | 52,387 | \$7,788 | 2,040 | — | 9,828 |
| accounts | | | | | | | | | | |
| Total | \$8,798 | 42,073 | | (126 |) | 50,745 | \$6,230 | 1,761 | — | 7,991 |

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SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

| | Nine months ended September 30, 2014 | | | Nine months ended September 30, 2013 | | | | |
|--------------------------------|--------------------------------------|----------------------------|-------------------------------|--------------------------------------|----------------------------|-------------------------------|----------|----------|
| | Beginning Balance | Revenue Increase(Decrease) | Refunds (Collections) Balance | Beginning Balance | Revenue Increase(Decrease) | Refunds (Collections) Balance | | |
| Memorandum accounts | \$(1,895) | 230 | 23 | (1,642) | 928 | (878) | (1,837) | |
| Balancing accounts: | | | | | | | | |
| Water supply costs | (2,378) | 3,634 | (17) | 1,239 | (1,590) | 436 | — | (1,154) |
| Pension | 9,734 | (6,687) | (123) | 2,924 | 6,657 | 2,475 | — | 9,132 |
| 2012 General Rate Case true-up | — | 46,456 | — | 46,456 | — | — | — | — |
| All others | 2,229 | (452) | (9) | 1,768 | 369 | 1,481 | — | 1,850 |
| Total balancing accounts | \$9,585 | 42,951 | (149) | 52,387 | \$5,436 | 4,392 | — | 9,828 |
| Total | \$7,690 | 43,181 | (126) | 50,745 | \$3,549 | 5,320 | (878) | 7,991 |

On September 29, 2014, the CPUC approved a surcharge to true-up the difference between interim rates and authorized rates of \$46,700 to be recovered over a three-year period as well as one-time refunds of \$200 as authorized in the 2012 General Rate Case. The net amount of \$46,500 has been recorded in the 2012 General Rate Case true-up row in the table above. This amount includes \$2,800 related to water supply and pension balancing accounts that have previously been recorded and have been deducted from the appropriate row in the table above.

As of September 30, 2014, the total balance in San Jose Water Company's balancing and memorandum accounts combined, including interest, that has not been recorded into the financial statements was a net under-collection of \$3,721, of which 87% relates to the MCMA and MCRAMA. All balancing accounts and memorandum-type accounts not included for recovery or refund in the current general rate case will be reviewed by the CPUC in San Jose Water Company's next general rate case or at the time an individual account reaches a threshold of 2% of authorized revenue, whichever occurs first.

SJW CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEPTEMBER 30, 2014

(in thousands, except share and per share data)

Note 11. Regulatory Assets and Liabilities

Regulatory assets and liabilities are comprised of the following as of September 30, 2014 and December 31, 2013:

| Description | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| Regulatory assets: | | |
| Income tax temporary differences, net | \$8,220 | 8,220 |
| Postretirement pensions and other medical benefits | 62,949 | 62,949 |
| 2012 General Rate Case true-up | 46,456 | — |
| Pension balancing account | 2,924 | 9,734 |
| Water rate assistance program balancing account | 2,189 | 2,590 |
| Water supply balancing accounts | 1,239 | — |
| Other | 5,134 | 4,725 |
| Total regulatory assets | \$129,111 | 88,218 |
| Regulatory liabilities: | | |
| Cost of capital memorandum account | \$2,266 | 2,297 |
| Water supply balancing accounts | — | 2,378 |
| Total regulatory liabilities | \$2,266 | 4,675 |
| Total regulatory assets, net in Consolidated Balance Sheets | \$126,845 | 83,543 |
| Less: current regulatory asset, net | 17,308 | — |
| Total regulatory assets, net, less current portion | \$109,537 | 83,543 |

Note 12. Legal Proceedings

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

Note 13. Sale of California Water Service Group
Stock

On June 30, 2014, SJW Corp. sold 125,969 shares of California Water Service Group for \$3,056, before fees of \$10. SJW Corp. recognized a gain on the sale of the stock of approximately \$2,017, tax expense of approximately \$822, for a net gain of \$1,195. The unrealized holding gain associated with the shares sold, that was reclassified out of accumulated other comprehensive income was \$1,171 and was based on the fair value of the stock as of March 31, 2014. As of September 30, 2014, SJW Corp. held 259,151 shares of California Water Service Group. The company classifies its investment in California Water Service Group as available for sale. The stock is carried at the quoted market price with the changes in unrealized gain or loss reported, net of tax, as a component of other comprehensive income.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. OPERATIONS

(Dollar amounts in thousands, except per share amounts and otherwise noted)

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, 2013.

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. and its subsidiaries operate and the beliefs and assumptions of the management of SJW Corp. Such forward-looking statements are identified by words including "expect," "estimate," "anticipate," "intends," "seeks," "plans," "projects," "may," "should," "will," and variations of such words, 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 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 or revise 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, SJW Land Company, SJWTX, Inc., and Texas Water Alliance Limited.

San Jose Water Company, a wholly owned subsidiary of SJW Corp., is a public utility in the business of providing water service to approximately 229,000 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 San Jose and Cupertino and in the cities of Campbell, Monte Sereno, Saratoga and the Town of Los Gatos, and adjacent unincorporated territories, 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 non-tariffed services under agreements with municipalities and other utilities. These non-tariffed services include water system operations, maintenance agreements and antenna leases.

San Jose Water Company has utility property including land held in fee, impounding reservoirs, diversion facilities, wells, distribution storage, and all water facilities, equipment, office buildings and other property necessary to supply 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. The majority of the properties are located in the hillside areas adjacent to San Jose Water Company's various watershed properties.

SJW Land Company, a wholly owned subsidiary of SJW Corp., owned the following real properties during the year-to-date period ended September 30, 2014:

| Description | Location | Acreage | Square Footage | % for Nine Months Ended September 30, 2014 of SJW Land Company | | |
|------------------------|-------------------------|---------|----------------|--|---------|---|
| | | | | Revenue | Expense | |
| 2 Commercial buildings | San Jose, California | 2 | 28,000 | 10 | % 10 | % |
| Retail building * | El Paso, Texas | 2 | 14,000 | 3 | % 1 | % |
| Warehouse building | Phoenix, Arizona | 11 | 176,000 | 12 | % 9 | % |
| Warehouse building | Knoxville, Tennessee | 30 | 361,500 | 33 | % 29 | % |
| Commercial building | Knoxville, Tennessee | 15 | 135,000 | 42 | % 51 | % |
| Undeveloped land | Knoxville, Tennessee | 10 | N/A | N/A | N/A | |
| Undeveloped land | San Jose, California | 5 | N/A | N/A | N/A | |

* On June 30, 2014, SJW Land Company closed the sale of its Texas retail building. Revenue and expense amounts are through the sale closing date. Expense amount excludes the gain on sale of property.

SJW Land Company owns a 70% limited partnership interest in 444 West Santa Clara Street, L.P. One of the California properties is owned by such partnership. 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 12,000 connections that serve approximately 36,000 people. CLWSC's service area comprises more than 240 square miles in western Comal County and southern Blanco County in the growing region between San Antonio and Austin, Texas. SJWTX, Inc. has a 25% interest in Acequia Water Supply Corporation (“Acequia”). The water supply corporation has been determined to be a variable interest entity within the scope of ASC Topic 810 with SJWTX, Inc. as the primary beneficiary. As a result, Acequia has been consolidated with SJWTX, Inc.

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 connection with the project, TWA applied for groundwater production and transportation permits to meet the future water needs in the Canyon Lake Water Service Company's service area and to the central Texas hill country communities and utilities adjacent to this area. In January 2013, TWA's permits were approved by the groundwater district in Gonzales County. The permits were subsequently received in March 2013.

Business Strategy for Water Utility Services:

SJW Corp. focuses its business initiatives in three 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 in California and the TCEQ in Texas;
- (3) Out-of-region water and utility related services.

As part of its pursuit of the above three strategic areas, SJW Corp. 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 or that it will not materially harm its operating results or financial condition.

Real Estate Services:

SJW Corp.'s real estate investment activity is conducted through SJW Land Company. SJW Land Company owns undeveloped land and owns and operates a portfolio of commercial buildings in the states of California, Arizona and Tennessee. SJW Land Company also owns a limited partnership interest in 444 West Santa Clara Street, L.P. The partnership owns a commercial building in San Jose, California. SJW Land Company manages its acquired income producing and other properties until such time a determination is made to reinvest proceeds from sale of such properties. SJW Land Company's real estate investments diversify SJW Corp.'s asset base.

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 consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated 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 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. 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 may result in an adjustment to operating revenue in the period which the revision to Water Utility Services' estimates is determined. San Jose Water Company also recognizes balancing and memorandum accounts in its revenue when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process.

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 three months ended September 30, 2014 and 2013, the surcharge was \$1,136 and \$1,132, respectively. For the nine months ended September 30, 2014 and 2013, the surcharge was \$2,752 and \$2,764, 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, maintenance agreements or antenna leases are recognized when services have been rendered. Revenue from SJW Land Company properties is generally recognized ratably over the term of the leases.

Balancing and Memorandum Accounts

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.

Balancing accounts are currently being maintained for the following items: purchased water, purchased power, groundwater extraction charges, and pensions. The amount in the water production balancing accounts 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 accounts tend to reflect an under-collection, while during the winter months when demand for water is relatively lower, the accounts tend to reflect an over-collection. The pension balancing account is intended to capture the difference between actual pension expense and the amount approved in rates by the CPUC.

San Jose Water Company also maintains memorandum accounts to track revenue impacts due to catastrophic events, certain unforeseen water quality expenses related to new federal and state water quality standards, energy efficiency,

cost of capital, any revenue requirement impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, and other approved activities or as directed by the CPUC.

Balancing and memorandum accounts are recognized in revenue by San Jose Water Company when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process. In addition, in the case of special revenue programs such as the MCRAMA, collection of the account balance must occur within 24 months of the end of the year the revenue is recorded. In assessing the probability criteria for balancing and memorandum accounts between rate cases, SJW Corp. considers evidence that may exist prior to CPUC authorization that

would satisfy ASC Topic 980, subtopic 340-25 recognition criteria. Such evidence may include regulatory rules and decisions, past practices, and other facts and circumstances that would indicate that recovery or refund is probable. When such evidence provides sufficient support for balance recognition, the balances are recorded in the SJW Corp.'s financial statements.

It is typical for the CPUC to incorporate any over-collected and/or under-collected balances in balancing or memorandum accounts into customer rates at the time rate decisions are made as part of San Jose Water Company's general rate case proceedings by assessing temporary surcredits and/or surcharges. In the case where San Jose Water Company's balancing or memorandum-type accounts that have been authorized by the CPUC reach certain thresholds or have termination dates, San Jose Water Company can request the CPUC to recognize the amounts in customer rates prior to the next regular general rate case proceeding by filing an advice letter.

Recognition of Regulatory Assets and Liabilities

Generally accepted accounting principles for water utilities include the recognition of regulatory assets and liabilities as permitted by ASC Topic 980. In accordance with ASC Topic 980, Water Utility Services, to the extent applicable, records 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 Water Utility Services through the ratemaking process. The regulatory assets and liabilities recorded by Water Utility Services, in particular, San Jose Water Company, primarily relate to the recognition of deferred income taxes for ratemaking versus tax accounting purposes, balancing and memorandum accounts, postretirement pension benefits, medical costs, accrued benefits for vacation and asset retirement obligations that have not been passed through in rates. San Jose Water Company adjusts the related asset and liabilities for these items through its regulatory asset and liability accounts at year-end, except for certain postretirement benefit costs and balancing and memorandum accounts which are adjusted monthly. 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 disallowances were recognized during the year-to-date period ended September 30, 2014 or during the year ended December 31, 2013.

Pension Plan Accounting

San Jose Water Company offers a Pension Plan, Executive Supplemental Retirement Plan, Cash Balance 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 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. Plan assets are marked to market at each reporting date.

Income Taxes

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

Recent Accounting Pronouncements:

In May 2014, the FASB issued Accounting Standards Update 2014-09 which supersedes most of the current revenue recognition requirements, including most industry-specific guidance. The updated standard will become effective for us in the first quarter of fiscal 2017 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. Management is currently evaluating the effect that the new standard will have on our consolidated financial statements and related disclosures.

Results of Operations:

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. Our service area in California is in the midst of a record

drought. In response to this, Governor Edmund G. Brown Jr. proclaimed a State of Emergency and directed state officials to take necessary actions to prepare for drought conditions. The SCVWD, our water wholesaler, has set a target of a 20% reduction for water use in 2014 in accordance with its adopted water shortage contingency plan and recommended that its retail water and municipal customers implement mandatory measures to meet the target. Effective March 31, 2014, San Jose Water Company received approval from the CPUC for a Mandatory Conservation Revenue Adjustment Memorandum Account to track any revenue shortfall and a Mandatory Conservation Memorandum Account to track operational and administrative costs associated with the implementation of the 20% conservation goal.

Overview

SJW Corp.'s consolidated net income for the three months ended September 30, 2014 was \$38,366, an increase of \$29,416 or approximately 329%, from \$8,950 for the same period in 2013. SJW Corp.'s consolidated net income for the nine months ended September 30, 2014 was \$46,118, an increase of \$28,411 or approximately 160%, from \$17,707 for the same period in 2013. The increase in net income was primarily due to the recognition of \$46,456 true-up revenue resulting from the general rate case decision. On September 29, 2014, the CPUC approved a surcharge to true-up the difference between interim rates and authorized rates of \$46,700 as well as one-time refunds of \$200. Collection of the surcharge is authorized to occur over a three-year period which commenced on October 2, 2014.

Operating Revenue

| | Operating Revenue by Segment | | | |
|------------------------|------------------------------|--------|-----------------------|---------|
| | Three months ended | | Nine months ended | |
| | September 30, 2014 | 2013 | September 30, 2014 | 2013 |
| Water Utility Services | \$123,660 | 83,753 | \$245,034 | 205,673 |
| Real Estate Services | 1,770 | 1,485 | 5,348 | 3,934 |
| | \$125,430 | 85,238 | \$250,382 | 209,607 |

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

| | Three months ended | | Nine months ended | | |
|-----------------------------------|--------------------------------|---------------------|--------------------------------|---------------------|----|
| | September 30, 2014 vs. 2013 | Increase/(decrease) | September 30, 2014 vs. 2013 | Increase/(decrease) | |
| Water Utility Services: | | | | | |
| Consumption changes | \$(5,918) |) (7 |)% \$(10,669) |) (5 |)% |
| New customers increase | 520 | — | % 1,290 | — | % |
| Rate increases | 5,117 | 6 | % 10,062 | 5 | % |
| Balancing and memorandum accounts | (6,269) |) (7 |)% (8,721) |) (4 |)% |
| 2012 General Rate Case true-up | 46,456 | 55 | % 46,456 | 22 | % |
| Texas general rate case refund | — | — | % 943 | — | % |
| Real Estate Services | 286 | — | % 1,414 | 1 | % |
| | \$40,192 | 47 | % \$40,775 | 19 | % |

Operating Expense

| | Operating Expense by Segment | | | |
|------------------------|------------------------------|--------|-----------------------|---------|
| | Three months ended | | Nine months ended | |
| | September 30, 2014 | 2013 | September 30, 2014 | 2013 |
| Water Utility Services | \$65,026 | 64,798 | \$169,219 | 164,418 |
| Real Estate Services | 1,041 | 820 | 3,118 | 2,378 |
| All Other | 249 | 274 | 756 | 755 |
| | \$66,316 | 65,892 | \$173,093 | 167,551 |

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

| | Three months ended | | | Nine months ended | | |
|---|--------------------------------|------|----|--------------------------------|------|----|
| | September 30, 2014 vs. 2013 | | | September 30, 2013 vs. 2012 | | |
| | Increase/(decrease) | | | Increase/(decrease) | | |
| Water production expenses: | | | | | | |
| Change in surface water use | \$1,084 | 2 | % | \$4,526 | 3 | % |
| Change in usage and new customers | (4,376) |) (7 |)% | (6,298 |) (4 |)% |
| Purchased water and groundwater extraction charge and energy price increase | 2,332 | 4 | % | 6,618 | 4 | % |
| Total water production expenses | (960) |) (1 |)% | 4,846 | 3 | % |
| Administrative and general | (132) |) — | % | (2,751 |) (2 |)% |
| Maintenance | 650 | 1 | % | 864 | 1 | % |
| Property taxes and other non-income taxes | 186 | — | % | 482 | — | % |
| Depreciation and amortization | 680 | 1 | % | 2,101 | 1 | % |
| | \$424 | 1 | % | \$5,542 | 3 | % |

Sources of Water Supply

San Jose Water Company's water supply consists of groundwater from wells, surface water from watershed run-off and diversion, reclaimed water, and imported water purchased from the SCVWD under the terms of a master contract with SCVWD expiring in 2051. Surface water is the least expensive source of water. Changes and variations in quantities from each of these sources affect the overall mix of the water supply, thereby affecting the cost of the water supply. In addition, the water rate for purchased water and the groundwater extraction charge may be increased by the SCVWD at any time. If an increase occurs, then San Jose Water Company would file an advice letter with the CPUC seeking authorization to increase revenues to offset the cost increase.

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 the GBRA, which expire in 2037, 2040, 2044 and 2050. The agreements, which are take-or-pay contracts, provide CLWSC with an aggregate of 6,900 acre-feet of water per year from Canyon Lake and other sources at prices that may be adjusted periodically by GBRA.

The following table presents the change in sources of water supply, in million gallons, for Water Utility Services:

| | Three months ended | | | Nine months ended | | |
|-----------------|--------------------|--------|-----------------|-------------------|--------|-----------------|
| | September 30, | | | September 30, | | |
| | Increase/ | | | Increase/ | | |
| | (decrease) | | | (decrease) | | |
| | % Change | | | % Change | | |
| | 2014 | 2013 | | 2014 | 2013 | |
| Purchased water | 5,870 | 8,579 | (2,709) (17)% | 14,707 | 21,476 | (6,769) (17)% |
| Groundwater | 7,709 | 6,457 | 1,252 8 % | 19,948 | 14,080 | 5,868 15 % |
| Surface water | 138 | 564 | (426) (3)% | 230 | 2,201 | (1,971) (5)% |
| Reclaimed water | 296 | 270 | 26 — % | 578 | 535 | 43 — % |
| | 14,013 | 15,870 | (1,857) (12)% | 35,463 | 38,292 | (2,829) (7)% |

The changes in the source of supply mix were consistent with the changes in the water production expenses.

Unaccounted-for water on a 12-month-to-date basis for September 30, 2014 and 2013 approximated 6.9% and 6.1%, respectively, as a percentage of total production. The unaccounted-for water estimate is based on the results of past experience, the trend and efforts in reducing Water Utility Services' unaccounted-for water through main replacements and lost water reduction programs.

Water production expenses

For the three months ended September 30, 2014 compared to the same period in 2013, the decrease in water production expenses was primarily attributable to a decrease in customer water usage. This decrease was offset by higher per unit costs for purchased water, groundwater extraction and energy charges and a decrease in the use of available surface water supply. For the nine months ended September 30, 2014 compared to the same period in 2013, the increase in water production expenses was primarily attributable to higher per unit costs for purchased water, groundwater extraction and energy charges and a decrease in the use of available surface water supply. Effective July

1, 2014, SCVWD increased the unit price of purchased water by approximately 9% and the groundwater extraction charge by approximately 10%. These increases were partially offset by a decrease in customer water usage.

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Other Operating Expenses

Operating expenses, excluding water production expenses, increased \$1,384 for the three months ended September 30, 2014 compared to the same period in 2013. The increase was primarily attributable to an increase of \$680 in depreciation expense due to increases in utility plant, \$650 increase in maintenance expenses due to an increase in leak repairs, and an increase of \$186 in property taxes and other non-income taxes as a result of increased utility plant. This increase was offset by a \$132 decrease in administrative and general expenses.

Operating expenses, excluding water production expenses, increased \$696 for the for the nine months ended September 30, 2014 compared to the same period in 2013. The increase was primarily attributable to an increase of \$2,101 in depreciation expense due to increases in utility plant, \$864 in maintenance expenses due to an increase in leak repairs and \$482 in property taxes and other non-income taxes as a result of increased utility plant. These increases were offset by a \$2,751 decrease in administrative and general expenses due to payments incurred in the prior year relating to our Texas water supply project, a decrease in pension expense due to an increasing discount rate coupled with an increase in return on pension plan assets and lower recycled water retrofit program expenses.

Other (Expense) Income

For the three months ended September 30, 2014 compared to the same period in 2013, the change in other (expense) income was primarily due to a \$281 pre-tax gain from the sale of a nonutility property, partially offset by a decrease in non-tariffed business activities. No similar sale occurred in the third quarter of 2013. For the nine months ended September 30, 2014 compared to the same period in 2013, the change in other (expense) income was primarily due to a \$2,017 pre-tax gain from the sale of California Water Service Group stock, partially offset by a decrease in the pre-tax gain from the sale of our Texas property and California nonutility property compared to the pre-tax gain recorded in the prior year on the sale of our Connecticut property.

Provision for Income Taxes

For the three months ended September 30, 2014 compared to the same period in 2013, income tax expense increased \$9,928 primarily due to higher pre-tax income offset by the impact of a state income tax benefit of \$5,652 related to the adoption of new Internal Revenue Service Tangible Property Regulations. The effective consolidated income tax rates were 29% and 39% for the three months ended September 30, 2014 and 2013, respectively.

For the nine months ended September 30, 2014 compared to the same period in 2013, income tax expense increased \$7,460 as a result of higher pre-tax income offset by the impact of a state income tax benefit of \$5,652 related to the adoption of new Internal Revenue Service Tangible Property Regulations, and the recognition of \$880 in California State enterprise zone sales and use tax credits related to tax years 2008 through 2012. The effective consolidated income tax rates were 30% and 40% for the nine months ended September 30, 2014 and 2013, respectively.

On September 13, 2013, the Department of Treasury and the Internal Revenue Service issued final tangible property regulations under provisions that generally are intended to simplify, clarify and make more administrable the 2011 temporary and proposed tangible property regulations. These regulations broadly apply to amounts to acquire, produce or improve tangible property, as well as dispositions of such property and provide criteria for determining whether such amounts can be deducted or should be capitalized as part of the asset. The final regulations generally are effective for tax years beginning on or after January 1, 2014. During the third quarter of 2014, management completed its evaluation of the capitalization elections under the new regulations in order to establish their method of complying with the new regulations and record the impact in the financial statements. To comply with the new regulations, SJW Corp. will apply the accounting method change in the 2014 tax returns for the expensing of certain utility asset improvement costs for tax purposes as of December 31, 2013 that were previously being capitalized for book and tax purposes. As of September 30, 2014, the estimated 2014 federal and state repairs and maintenance deduction under the new methodology was \$19,395, resulting in an estimated \$5,091 Federal deferred tax liability and a state income tax benefit of \$853. During the third quarter of 2014, SJW Corp. also completed a detailed analysis of the repairs and maintenance deduction related to 2013 and prior years, and recorded the estimated federal and state impact in the consolidated financial statements as of September 30, 2014. SJW Corp.'s Internal Revenue Code ("IRC") §481(a) adjustment for Federal purposes was estimated to be \$41,171 and resulted in a \$14,410 deferred tax liability as of September 30, 2014. SJW Corp.'s IRC §481(a) adjustment for state purposes was estimated to be \$83,524 and resulted in a \$4,799 reduction to state income tax expense for the three and nine months ended September 30, 2014.

Other Comprehensive Income (Loss)

The change in other comprehensive income (loss) for the three and nine months ended September 30, 2014 compared to the same period in 2013 was due to a change in market value and partial sale of SJW Corp.'s investment in California Water Service Group stock during the second quarter of 2014.

Water Supply

On October 1, 2014, SCVWD's 10 reservoirs were approximately 35% full with 59,416 acre-feet of water in storage. As reported by SCVWD, for the first quarter of the rainfall season that commenced on July 1, 2014 and ends on June 30, 2015, there was no measurable rainfall. As of September 30, 2014, San Jose Water Company's Lake Elsman contained 190 acre-feet of water, none of which can be utilized. In addition, the rainfall at San Jose Water Company's Lake Elsman was measured at 0.87 inches for the rainfall season. 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 will utilize additional water from its portfolio of groundwater supplies in 2014, and believes that its various potable water sources will be sufficient to meet customer demand through the remainder of 2014.

In response to the driest year (2013) in recorded California state history, on January 17, 2014, Governor Edmund G. Brown Jr. proclaimed a State of Emergency and directed state officials to take necessary actions to prepare for drought conditions. On February 25, 2014, the SCVWD set a target of a 20% reduction in water use for 2014 in accordance with its adopted water shortage contingency plan and recommended that its retail water and municipal customers implement mandatory measures to meet the target. San Jose Water Company is actively coordinating with the SCVWD to meet the recommended reduction in water use. Effective March 1, 2014, the SCVWD reduced all treated water deliveries to 80% of monthly contract allocations through December 31, 2014. On March 31, 2014, San Jose Water Company received CPUC authorization to implement water conservation rules as defined in Tariff Rule 14.1. Rule 14.1 focuses primarily on outdoor water use which accounts for 50% of a typical customer's water usage. On July 29, 2014, the State Water Resources Control Board adopted new emergency regulations requiring California urban water systems to implement mandatory outdoor residential water use restrictions. San Jose Water Company's water conservation rules, which mirror those of the State Water Board's, have been in effect since March 31, 2014, as ordered by the CPUC. On August 14, 2014, the CPUC provided additional guidance to its investor-owned water utilities to comply with the State Water Board's rules by requiring customer notification, monthly reporting of water usage data and coordination with local law enforcement agencies to enforce the rules. San Jose Water Company is complying with the CPUC's resolution and is working with local governments as well as the SCVWD to communicate consistent messages to the public. For the months of July, August and September, San Jose Water Company's regulated water production was down 11%, 13% and 14%, respectively, compared to the same three months in 2013. SJW Corp. and San Jose Water Company, provide additional information on their web sites relating to ongoing water conservation measures taken or to be taken in response to the historical drought conditions in California, including information on customer water usage. The web sites are accessible at www.sjwater.com and www.sjwcorp.com. SJW Corp. intends to update the web sites as appropriate during the period in which the water shortage contingency plan of SCVWD remains in effect.

CLWSC's water supply consists of groundwater from wells and purchased and treated raw water from the GBRA. CLWSC has long-term agreements with the GBRA, which expire in 2037, 2040, 2044 and 2050. The agreements, which are take-or-pay contracts, provide CLWSC with an aggregate of 6,900 acre-feet of water per year from Canyon Lake and other sources at prices that may be adjusted periodically by GBRA.

Regulation and Rates

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 the opportunity to achieve a specified return on common equity. The timing of rate decisions could have an impact on the results of operations.

On February 28, 2014, San Jose Water Company submitted Advice Letter No. 456. In this advice letter, San Jose Water Company notified the CPUC that San Jose Water Company was implementing conservation Tariff Rule 14.1. The CPUC's Rule 14.1 provides voluntary conservation measures for customers, focusing primarily on outdoor water use which accounts for 50% of a typical customer's water usage. In addition, San Jose Water Company requested the implementation of a MCMA to track all operational and administrative costs associated with the implementation of Rule 14.1 and implementation of a MCRAMA to track any revenue shortfall associated with the implementation of the 20% conservation goal. The advice letter was approved on March 21, 2014 and the Rule 14.1 voluntary

conservation measures, the MCMA, and MCRAMA all went into effect on March 31, 2014. San Jose Water Company will record the impact of the MCRAMA and MCMA regulatory accounts in its consolidated financial statements once probability of recovery can be determined and collection can be assured within 24 months of the year-end the revenue is recorded.

On March 17, 2014, San Jose Water Company filed Advice Letter No. 457. In Advice Letter No. 457, San Jose Water Company requested authorization for a rate base offset for improvements to the Montevina Water Treatment Plant. In Decision 13-07-028, the CPUC authorized San Jose Water Company to file annual advice letters to include in rate base properly recorded costs of the Montevina Water Treatment Plant upgrade project. This filing was the first such advice letter. San Jose Water Company will file similar annual advice letters until the project is completed. The current advice letter filing requests authorization for a revenue increase of approximately \$123. This would result in an increase to rates of 0.05%. The CPUC authorized this increase, and the increase became effective on July 21, 2014

On May 23, 2014, San Jose Water Company filed Advice Letter No. 461 seeking authorization to increase revenue by \$9,400, or approximately 3.6% to offset increases to SCVWD groundwater production charges and treated water charges. The CPUC authorized this increase, and the increase became effective on July 1, 2014.

On August 14, 2014, the CPUC issued Decision No. 14-08-006 in San Jose Water Company's General Rate Case filing for the years 2013-2015. This Decision resolved all issues in San Jose Water Company's General Rate Case and closed the proceeding. The Decision authorized an increase of revenue by \$22,102, or 9.81%, for 2013 and \$13,274, or 5.21% for 2014, and provides San Jose Water Company authorization to file to increase rates for 2015 in November 2014. Additionally, due to the nearly 20 month delay in receiving the Decision, San Jose Water Company was authorized to file for a surcharge to true-up the difference between interim rates (i.e. rates that were actually in effect since January 1, 2013) and authorized rates (i.e. rates that should have been effect since January 1, 2013). The Company filed for this surcharge on August 29, 2014 with Advice Letter No. 465, requesting the CPUC to implement a surcharge to recover balances in San Jose Water Company's 2013 General Rate Case Interim Rates Memorandum Account. In this filing, San Jose Water Company sought to recover \$46,700 of revenue which was not collected over the period of January 1, 2013 through August 14, 2014 due to the delayed decision in San Jose Water Company's General Rate Case Application. The retroactive adjustment reflects the impact of actual usage compared to what was authorized in the Decision for 2013 and the combined impact of 2013 and 2014 rate increases for 2014. This recovery was authorized in Decision No. 14-08-006. San Jose Water Company sought to recover the uncollected revenue over a three-year period via a \$0.2888 per CCF surcharge applied to all customer usage as authorized in the 2012 General Rate Case. This surcharge was approved by the CPUC effective September 29, 2014.

On September 15, 2014, San Jose Water Company filed an application for rehearing of Decision No. 14-08-006 to address a limited set of issues from San Jose Water Company's General Rate Case Decision No. 14-08-006.

Specifically, San Jose Water Company sought rehearing on the duration of the interim rate period used to determine the General Rate Case true-up recovery and rehearing on the treatment of excess capacity labor in the provision of non-tariffed products and services. This application for rehearing will not have an effect on the implementation of the rates determined in Decision No. 14-08-006.

Effective September 1, 2014, CLWSC became subject to the regulation of the Public Utilities Commission of Texas ("PUCT"). Prior to that time CLWSC was subject to regulation by the TCEQ. Both the PUCT and TCEQ authorize rate increases after the filing of an Application for a Rate/Tariff Change. Rate cases may be filed as they become necessary, provided there is no current rate case outstanding. Further, rate cases may not be filed more frequently than once every 12 months.

On August 21, 2013, the TCEQ issued a decision in CLWSC's 2010 rate case that supported a rate base of \$38,000, a return on equity of 10.88%, and a 33% increase in revenue requirement. Since the rates authorized by the TCEQ were less than the interim rates, this resulted in a customer refund of approximately \$1,000 for rate over-collections during the period of interim rates. In accordance with the TCEQ decision, the refund may be made over the same number of months that the customer paid the interim rates, or 33 months. This amount was recorded as a regulatory liability and reduction of revenue during the year ended December 31, 2013. In November 2013, CLWSC filed an appeal of the TCEQ decision with the District Court of Travis County alleging certain errors in the final decision. The appeal is currently pending before the District Court.

On October 3, 2013, CLWSC filed a rate case with the TCEQ. The filing contained a request for an average system-wide rate increase of 23.1%, or \$2,400. With the exception of customers served within the City of Bulverde, the new rates became effective on December 2, 2013. Subsequently, effective March 1, 2014, a rate settlement agreement was reached with the City of Bulverde with rate increases being phased-in over a 28-month period. Prior to approval by the TCEQ, the new rates are subject to adjustment and refund for customers outside the City of Bulverde. A preliminary hearing in the matter for customers outside the City of Bulverde was completed on July 22, 2014. A settlement proposal was submitted for the commission's consideration on November 3, 2014, and a decision is expected in the fourth quarter of 2014. SJW Corp. has recognized the average 23.1% increase in accordance with ASC Topic 980 which provides guidance when a regulated entity is permitted to bill requested rate increases before the regulator has ruled on the request. If information becomes available that indicates it is probable that any of the average 23.1% rate increase will need to be refunded and the amount of refund can be reasonably estimated, a loss

contingency shall be accrued. CLWSC has determined at this time that it is not probable that any of the rate increase will need to be refunded. Management does not anticipate that the final TCEQ decision will materially affect SJW Corp.'s financial position, results of operations or cash flows.

Liquidity:

Cash Flow from Operating Activities

During the nine months ended September 30, 2014, SJW Corp. generated cash flows from operations of approximately \$45,900, compared to \$47,200 for the same period in 2013. Cash flow from operations is primarily generated by net income from revenue producing activities, adjusted for non-cash expenses for depreciation and amortization, deferred income taxes, gains on the sale of assets, and changes in working capital items. Cash flow from operations decreased by approximately \$1,300. This decrease was caused by a combination of the following factors: (1) recognition of the balancing and memorandum

accounts, including the regulatory asset recorded in other current assets, drove a decrease of \$39,800, (2) postretirement benefit changes caused a \$3,500 decrease, (3) net income adjusted for non-cash items and gains from asset activity increased \$37,300, (4) collections of previously billed and accrued receivables increased by \$4,400, and (5) change in general working capital caused a \$300 increase.

As of September 30, 2014, Water Utility Services' write-offs for uncollectible accounts represent less than 1% of its total revenue, unchanged from September 30, 2013. Management believes it will continue to collect its accounts receivable balances at its historical collection rate.

Cash Flow from Investing Activities

During the nine months ended September 30, 2014, SJW Corp. used approximately \$70,300 of cash for company-funded capital expenditures, \$7,300 for developer-funded capital expenditures, and \$1,600 for acquisitions. These uses were offset by cash proceeds of \$4,600 from the sales of SJW Land Company's real estate investment in Texas and a nonutility property owned by San Jose Water Company, and \$3,100 from the sale of California Water Service Group stock.

Water Utility Services' budgeted capital expenditures for 2014, exclusive of capital expenditures financed by customer contributions and advances, are \$88,600. As of September 30, 2014, approximately \$70,300 or 79% of the \$88,600 has been spent.

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, Water Utility Services expects to incur approximately \$527,000 in capital expenditures, which includes replacement of pipes and mains, and maintaining water systems. This amount is subject to CPUC and TCEQ approval. Included in this amount is \$60,500 relating to upgrades to San Jose Water Company's 40-year old Montevina Water Treatment Plant. Capital expenditures have the effect of increasing utility plant on which Water Utility Services earns a return. 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.

Cash Flow from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2014 increased by approximately \$9,800 from the same period in the prior year, primarily as a result of an increase of \$50,000 in long-term borrowings, offset by a decrease in net borrowings on the line of credit, and a decrease due to the the issuance of common stock when compared to the prior year.

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 49% debt and 51% equity. As of September 30, 2014, San Jose Water Company's funded debt and equity were approximately 47% and 53%, respectively.

Funding for San Jose Water Company's 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 our investment in California Water Service Group, all of which will be consistent with the regulator's guidelines.

On January 24, 2014, San Jose Water Company entered into a note agreement (the "Note Agreement") with John Hancock Life Insurance Company (U.S.A.) and its affiliate (the "Purchaser"), pursuant to which San Jose Water Company agreed to sell an aggregate principal amount of \$50,000 of its 5.14% senior note, Series L (the "Notes") to the Purchaser. The senior note is an unsecured obligation of San Jose Water Company and is due on the date that is the 30th anniversary of the issuance of the senior note. Interest is payable semi-annually in arrears on March 1 and September 1 of each year. The Note Agreement contains customary representations and warranties. San Jose Water Company has agreed to customary affirmative and negative covenants for as long as the Notes are outstanding, including, subject to certain exceptions and qualifications, among other things, limitation on indebtedness based on a specified debt to capitalization ratio and a net income to interest charge ratio. The

Notes are subject to customary events of default, the occurrence of which may result in all of the Notes then outstanding becoming immediately due and payable. The transaction closed on August 7, 2014.

SJW Corp.'s unsecured senior note agreement 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 \$175,000 plus 30% of Water Utility Services cumulative net income, since June 30, 2011. As of September 30, 2014, SJW Corp. was not restricted from issuing future indebtedness as a result of these terms and conditions.

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 September 30, 2014, San Jose Water Company's funded debt was 47% of total capitalization and the net income available for interest charges was 474% of interest charges. As of September 30, 2014, San Jose Water Company was not restricted from issuing future indebtedness as a result of these terms and conditions.

San Jose Water Company's loan agreement with the California Pollution Control Financing Authority 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 projects funded by the loan proceeds and the assignment of the loan agreement. As of September 30, 2014, San Jose Water Company was in compliance with all such covenants.

SJWTX, Inc.'s unsecured senior note agreement has terms and conditions that restrict SJWTX, Inc. 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. In addition, SJW Corp. is a guarantor of SJWTX, Inc.'s 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 Water Utility Services cumulative net income, since December 31, 2005. As of September 30, 2014, SJWTX, Inc. and SJW Corp. were not restricted from issuing future indebtedness as a result of these terms and conditions.

As of September 30, 2014, SJW Corp. and its subsidiaries had unsecured bank lines of credit, allowing aggregate short-term borrowings of up to \$100,000, of which \$15,000 was available to SJW Corp. and SJW Land Company under a single line of credit and \$85,000 was available to San Jose Water Company under another line of credit. \$3,000 under the San Jose Water Company line of credit is set aside in the form of letters of credit for its Safe Drinking Water State Revolving Fund loans. At September 30, 2014, SJW Corp. and its subsidiaries had available unused short-term bank lines of credit of \$88,800. These lines of credit bear interest at variable rates. They will expire on September 1, 2016. The cost of borrowing on SJW Corp.'s short-term credit facilities averaged 1.1% as of September 30, 2014. SJW Corp., on a consolidated basis, has the following affirmative covenants on its unsecured bank line of credit: (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 175% of interest charges. As of September 30, 2014, SJW Corp.'s funded debt was 52% of total capitalization and the net income available for interest charges was 459% of interest charges. As of September 30, 2014, SJW Corp. was in compliance with all covenants. 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 175% of interest charges. As of September 30, 2014, San Jose Water Company was in compliance with all covenants.

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 SJW Corp.'s variable rate lines of credit. San Jose Water Company sponsors a noncontributory pension plan for its employees. Pension costs and the funded status of the plan are affected by a number of factors including the discount rate and investment returns on plan assets. SJW Corp. also owned 259,151 shares of common stock of California Water Service Group as of September 30, 2014, which is listed on the New York Stock Exchange, and is therefore exposed to the risk of fluctuations and changes in equity prices. SJW Corp. has no derivative financial instruments, financial instruments with significant off-balance sheet risks, or financial instruments with concentrations of credit risk.

ITEM 4. CONTROLS AND PROCEDURES

SJW Corp.'s management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of 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, the "Exchange Act"), 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 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 Exchange 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 third fiscal quarter of 2014 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 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" in SJW Corp.'s Form 10-K for the year ended December 31, 2013, and our other public filings, which could materially affect our business, financial condition or future results. There have been no material changes from risk factors previously disclosed in "Risk Factors" in SJW Corp.'s Form 10-K for the year ended December 31, 2013.

ITEM 5. OTHER INFORMATION

On October 29, 2014, the Board of Directors of SJW Corp. declared the regular quarterly dividend of \$0.1875 per share of common stock. The dividend will be paid on December 1, 2014 to shareholders of record as of the close of business on November 10, 2014.

ITEM 6. EXHIBITS

See Exhibit Index located immediately following the Signatures 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 September 30, 2014.

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: November 5, 2014

By: /s/ JAMES P. LYNCH
James P. Lynch
Chief Financial Officer and Treasurer
(Principal financial officer)

EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|---|
| 10.1 | Third Amendment to Credit Agreement dated as of August 1, 2014 between San Jose Water Company and Wells Fargo Bank, National Association. Incorporated by reference as Exhibit 10.2 to Form 10-Q filed for the quarter ended June 30, 2014. |
| 10.2 | Third Amendment to Credit Agreement dated as of August 1, 2014 between SJW Corp., SJW Land Company and Wells Fargo Bank, National Association. Incorporated by reference as Exhibit 10.4 to Form 10-Q filed for the quarter ended June 30, 2014. |
| 10.3 | Amendment, effective as of July 30, 2014, to the Amended and Restated Employment Agreement of W. Richard Roth, together with Exhibit A (Form of Restricted Stock Unit Issuance Agreement - Service Award), Exhibit B (Form of Restricted Stock Unit Issuance Agreement - TSR Award), and Exhibit C (Form of Restricted Stock Unit Issuance Agreement - ROE Award). Incorporated by reference as Exhibit 10.1 to Form 8-K filed on August 1, 2014. |
| 31.1 | Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chairman, 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 Chairman, 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) |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Filed currently herewith.

