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SJW CORP
Form 10-K405
March 12, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

or

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period to

Commission file number 1-8966

SJW CORP.

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

77-0066628
(I.R.S. Employer
Identification No.)

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

95196
(Zip Code)

Registrant's telephone number, including area code: 408-279-7800

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of each class ----- | Name of each exchange on which registered ----- |
|---------------------------------|--|
| Common Stock, Par Value \$3.125 | American Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

None (Title of Class)

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 [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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The aggregate market value of the voting stock held by non-affiliates of the registrant -- \$161,621,816 on February 27, 2002.

Shares of common stock outstanding on March 6, 2002 -- 3,045,147.

EXHIBIT INDEX

The Exhibit Index to this Form 10-K is located in Part IV, Item 14 of this document.

TABLE OF CONTENTS

| | Page |
|--|------|
| PART I | |
| Forward-Looking Statements | 2 |
| Item 1. Business | 3 |
| a. General Development of Business | 3 |
| b. Financial Information about Industry Segments | 3 |
| c. Narrative Description of Business | 4 |
| General | 4 |
| Water Supply | 4 |
| Franchises | 4 |
| Seasonal Factors | 5 |
| Competition and Condemnation | 5 |
| Environmental Matters | 5 |
| Employees | 5 |
| d. Financial Information about Foreign and Domestic Operations and Export Sales .. | 7 |
| Item 2. Properties | 7 |
| Item 3. Legal Proceedings | 7 |
| Item 4. Submission of Matters to a Vote of Security Holders | 7 |
| PART II | |
| Item 5. Market for Registrant's Common Equity and Related Stockholder Matters | 8 |
| a. Market Information | 8 |
| b. Holders | 8 |
| c. Dividends | 8 |
| Item 6. Selected Financial Data | 9 |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | 10 |
| Item 7a. Quantitative and Qualitative Disclosures About Market Risk | 17 |
| Item 8. Financial Statements and Supplementary Data | 18 |
| Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure | 32 |
| PART III | |
| Item 10. Directors and Executive Officers of the Registrant | 32 |
| Item 11. Executive Compensation | 32 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management | 32 |
| Item 13. Certain Relationships and Related Transactions | 32 |
| PART IV | |
| Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K | 33 |
| Exhibit Index | 34 |

PART I

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities laws relating to future events and financial performance of SJW Corp. and its subsidiaries. Such forward-looking statements are identified by words including "expect", "estimate", "anticipate" and similar expressions. SJW Corp.'s actual results could differ materially from those discussed in such forward-looking statements. Important factors that could cause or contribute to such differences are included below.

The California Public Utilities Commission's (CPUC) policy and regulations can adversely affect SJW Corp.'s wholly owned subsidiary, San Jose Water Company's operating results through the availability, timeliness and amount of rate relief. The CPUC's willingness to allow San Jose Water Company to recover its capital expenditures, to offset its incremental production and operating costs increase, and to provide financial and operational flexibility to engage in nonregulated operations can also affect San Jose Water Company's operating results.

San Jose Water Company's sales and therefore its operating results could be adversely affected by several events:

Difficulties in obtaining a secured high-quality water supply from the Santa Clara Valley Water District (SCVWD) which receives its allotment from the state and federal water projects could prevent the company from satisfying its customer demand within its service area;

Fluctuation of customer sales due to lifestyle or weather;

Availability of recycled water and its acceptance by customers as a substitute to potable water; and

Economic development and growth in San Jose Water Company's service area.

The expenses of SJW Corp. and its subsidiaries and therefore the operating results of SJW Corp. could be adversely affected by the following:

Fluctuation of high-quality surface water availability from San Jose Water Company's Santa Cruz Mountain Watershed, which produces a less costly water supply, could result in the need to procure more costly water from other sources;

The availability of affordable and efficient energy resources to extract and boost water from the groundwater basin to the distribution system, and to operate equipment and machinery necessary in providing water service to the customers could increase operating expenses;

Stringent environmental and water quality regulations could increase San Jose Water Company's water quality compliance costs and hamper San Jose Water Company's available water supplies;

Consequences from pollution and contamination of San Jose Water Company's wells and source of supply could result in the need to procure

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more costly water from other sources;

The level of labor and non-labor operating and maintenance expenses as affected by inflationary forces and collective bargaining power could adversely affect the operating and maintenance expenses of SJW Corp.;

Cost and other effects of lawsuits against SJW Corp. or its subsidiaries, whether civil, environmental, or product-related could increase SJW Corp.'s legal, liability and insurance costs.

The City of Cupertino's lease operation could be adversely affected by capital requirements, the ability of San Jose Water Company to raise rates through the Cupertino City Council, and the level of operating and maintenance expenses.

SJW Land Company's expenses and operating results also could be adversely affected by the parking lot activities, the San Jose Compaq Center events, ongoing local, state and federal land use development activities and regulations, future economic conditions, and the development and fluctuations in the sale of the undeveloped properties.

2

See also the heading "Factors That May Affect Future Results" under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

SJW Corp. undertakes no obligation to update the information contained in this report, including the forward-looking statements to reflect any event or circumstance that may arise after the date of this report.

Item 1. Business

(a) General Development of Business

SJW Corp. was incorporated in California on February 8, 1985. SJW Corp. is a holding company with three subsidiaries.

San Jose Water Company, a wholly owned subsidiary, with headquarters at 374 West Santa Clara Street, San Jose, California 95196, was reorganized under the laws of the State of California in 1931, succeeding a business founded in 1866. San Jose Water Company is a public utility in the business of providing water service to a population of approximately 988,000 people in an area comprising about 138 square miles in the metropolitan San Jose area. San Jose Water Company's web site can be accessed via the Internet at <http://www.sjwater.com>.

SJW Land Company, a wholly owned subsidiary, was incorporated in 1985. SJW Land Company owns and operates parking facilities adjacent to the company's headquarters and the San Jose Compaq Center. SJW Land Company also owns commercial buildings in San Jose and a 70% limited partnership interest in 444 West Santa Clara Street, L.P.

Crystal Choice Water Service LLC, a 75% owned limited liability subsidiary formed in January 2001, engages in the sale and rental of water conditioning equipment.

SJW Corp. also owns 1,099,952 shares of California Water Service Group.

Regulation and Rates

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San Jose Water Company's rates, service and other matters affecting its business are subject to regulation by the California Public Utilities Commission (CPUC).

Ordinarily, there are two types of rate increases, general and offset. General rate case decisions usually authorize an initial rate increase followed by two annual step increases designed to maintain the authorized return on equity over a three-year period. General rate applications are normally filed and processed during the last year covered by the most recent rate case in an attempt to avoid regulatory lag.

The purpose of the offset rate increase is to compensate utilities for increases in specific expenses, such as those for purchased water, pump tax or purchased power.

Pursuant to Section 792.5 of the California Public Utilities Code, a balancing account is to be kept for all expense items for which revenue offsets have been authorized. A separate balancing account must be maintained for each offset expense item (e.g. purchased water, purchased power and pump tax). 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. At December 31, 2001, the balancing account had a net under-collected balance to be collected of \$302,000.

(b) Financial Information about Industry Segments

San Jose Water Company generated 99% of SJW Corp.'s consolidated revenue for the years ended December 31, 2001, 2000, and 1999. There were no significant changes in 2001 in the type of products produced or services rendered by San Jose Water Company, or in its markets or methods of distribution.

SJW Land Company contributed 1% to SJW Corp.'s consolidated revenue in 2001, 2000, and 1999. In 1999, SJW Land Company sold a non-utility property and contributed a higher net income percentage to SJW Corp.'s consolidated income for the year. Crystal Choice Water Service LLC contributed less than 1% of 2001's consolidated revenue.

3

Dividend income from California Water Service Group generated 7%, 11% and 7% of consolidated net income for the years 2001, 2000, and 1999, respectively.

(c) Narrative Description of Business

General

The principal business of San Jose Water Company consists of the production, purchase, storage, purification, distribution and retail sale of water. San Jose Water Company provides water service to customers in portions of the cities of Cupertino and San Jose and in the cities of Campbell, Monte Sereno, Saratoga and the Town of Los Gatos, and adjacent unincorporated territory, all in the County of Santa Clara in the State of California. It distributes water to customers in accordance with accepted water utility methods, which include pumping from storage and gravity feed from high elevation reservoirs.

In October 1997, San Jose Water Company commenced operation of the City of Cupertino municipal water system under terms of a 25-year lease. The system is adjacent to the existing San Jose Water Company service area and has 4,200

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service connections. Under terms of the lease, San Jose Water Company paid an up-front \$6.8 million concession fee to the City which will be amortized over the contract term. The company is responsible for all aspects of system operation including capital improvements.

Water Supply

San Jose Water Company's water supply is obtained from wells, surface run-off and diversion and by purchases from the Santa Clara Valley Water District (SCVWD). Under the terms of a master contract with SCVWD expiring in 2051, purchased water provides approximately 40% to 45% of San Jose Water Company's annual production. Surface supplies, which during a year of normal rainfall satisfy about 6% to 8% of San Jose Water Company's current annual needs, provide approximately 1% of its water supply in a dry year and approximately 14% in a wet year. In dry years, the decrease in water from surface run-off and diversion, and the corresponding increase in purchased and pumped water, increases production costs substantially.

Groundwater levels in 2002 remained at an average level reflecting the impact of the last rainfall season. SCVWD's reservoir storage of approximately 83,773 acre-feet (49.45% of capacity) was reported on March 1, 2002.

The pumps and motors at San Jose Water Company's groundwater production facilities are propelled by electric power. Over the last few years, San Jose Water Company has installed standby power generators at eighteen of its strategic water production sites. In addition, the commercial office and operations control centers are equipped with standby generators that allow critical distribution and customer service operations to continue during a power outage. The SCVWD informed San Jose Water Company that its filter plants, which deliver imported water to San Jose Water Company, are also equipped with standby generators. In the event of a power outage, San Jose Water Company believes it will be able to prevent an interruption of service to customers for a limited period through pumping water with its standby generators and through the imported water from SCVWD.

Until 1989, San Jose Water Company had never found it necessary to impose mandatory water rationing. Except in a few isolated cases when service had been interrupted or curtailed because of power or equipment failures, construction shutdowns, or other operating difficulties, San Jose Water Company had not at any prior time in its history interrupted or imposed mandatory curtailment of service to any type or class of customer. During the summer of 1989 through March 1993, rationing was imposed intermittently to all customers at the request of SCVWD.

Franchises

San Jose Water Company holds such franchises or permits in the communities it serves as it judges necessary to operate and maintain its facilities in the public streets.

4

Seasonal Factors

Water sales are seasonal in nature. The demand for water, especially by residential customers, is generally influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by residential customers to vary significantly.

Competition and Condemnation

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San Jose Water Company is a public utility regulated by the CPUC and operates within a service area approved by the CPUC. The laws of the State of California provide that no other investor-owned public utility may operate in San Jose Water Company's service area without first obtaining from the CPUC a certificate of public convenience and necessity. Past experience shows such a certificate will be issued only after demonstrating San Jose Water Company's service in such area is inadequate.

California law also provides that whenever a public agency constructs facilities to extend utility service to the service area of a privately owned public utility (like San Jose Water Company), such an act constitutes the taking of property and is conditioned upon payment of just compensation to the private utility.

Under the constitution and statutes of the State of California, municipalities, water districts and other public agencies have been authorized to engage in the ownership and operation of water systems. Such agencies are empowered to condemn properties operated by privately owned public utilities upon payment of just compensation and are further authorized to issue bonds (including revenue bonds) for the purpose of acquiring or constructing water systems. To the Company's knowledge, no municipality, water district or other public agency has pending any action to condemn any part of San Jose Water Company's system.

Environmental Matters

San Jose Water Company maintains procedures to produce potable water in accordance with all applicable county, state and federal environmental rules and regulations. Additionally, San Jose Water Company is subject to environmental regulation by various other governmental authorities. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Employees

As of December 31, 2001, San Jose Water Company had 289 employees, of whom 72 were executive, administrative or supervisory personnel, and of whom 217 were members of unions. San Jose Water Company reached a three-year collective bargaining agreement with the Utility Workers of America, representing the majority of employees and the International Union of Operating Engineers, representing certain employees in the engineering department covering the years 2001 through 2003. Both groups are affiliated with the AFL-CIO.

5

Executive Officers of the Registrant

| Name ---- | Age ----- | Offices and Experience ----- |
|----------------------|--------------|--|
| J.W. Weinhardt | 71 | SJW Corp. -- Chairman of the Board. Chairman of the Corporation and member of its Executive Committee. Prior to becoming Chairman in October 1999, he was the Corporation's Chief Executive Officer. He was also President and Director of the Board since 1985. |
| W.R. Roth | 49 | SJW Corp. -- President and Chief Executive Officer of SJW Corp. since October 1999. Prior to that he was President from October 1996 and Chief Financial Officer and Treasurer |

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from January 1990 until October 1996.

| | | |
|----------------------|----|---|
| R.J. Balocco | 52 | San Jose Water Company -- Vice President -- Corporate Communications since October 1995. He was Vice President -- Administration from April 1992 until October 1995. Mr. Balocco has been with San Jose Water Company since 1982. |
| G.J. Belhumeur | 56 | San Jose Water Company -- Vice President -- Operations since April 1996. Prior to April 1996, he was Operations & Maintenance Manager. Mr. Belhumeur has been with San Jose Water Company since 1970. |
| D. Drysdale | 46 | San Jose Water Company -- Vice President -- Information Services since January 1999. Prior to that, he was Director of Information Services from March 1998 to January 1999. Prior to March 1998 he was Data Processing Manager since 1994. Mr. Drysdale joined San Jose Water Company in 1992. |
| J. Johansson | 56 | San Jose Water Company -- Vice President -- Human Resources since January 1999. Prior to that, he was Director of Human Resources from March 1998 to January 1999. Prior to March 1998 he was Personnel Manager. Mr. Johansson has been with San Jose Water Company since 1976. |
| R.J. Pardini | 56 | San Jose Water Company -- Vice President -- Chief Engineer since April 1996. Prior to April 1996, he was Chief Engineer. Mr. Pardini has been with San Jose Water Company since 1987. |
| A. Yip | 48 | SJW Corp. -- Chief Financial Officer and Treasurer since October 1996. San Jose Water Company -- Vice President -- Finance since January 1999, Chief Financial Officer and Treasurer since October 1994. Ms. Yip has been with the San Jose Water Company since 1986. |
| R.S. Yoo | 51 | San Jose Water Company -- Vice President -- Water Quality since April 1996. Prior to April 1996, he was Water Quality Manager. He has been with San Jose Water Company since 1985. |
| R.A. Loehr | 55 | SJW Corp. and San Jose Water Company -- Secretary since March 1, 1998. Mr. Loehr has been with San Jose Water Company since 1987 and serves as its attorney. |
| Edith Aiwaz | 42 | San Jose Water Company -- Controller since July 2001. Prior to that she was the Assistant Controller for Objectivity, Inc. from June 2000 through June 2001. She was an auditor for Lindquist Von Husen and Joyce, CPAs, from November 1998 through May 2000 and a financial systems analyst for Sun Microsystems, Inc., from June 1997 through October 1998. |

(d) Financial Information about Foreign and Domestic Operations and Export Sales

Substantially all of SJW Corp.'s revenue and expense are derived from operations located in the County of Santa Clara in the State of California.

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Item 2. Properties

The properties of San Jose Water Company consist of a unified system of water production, storage, purification and distribution located in the County of Santa Clara in the State of California. In general, the property is comprised of franchise rights, water rights, necessary rights-of-way, approximately 7,000 acres of land held in fee (which is primarily non-developable watershed), impounding reservoirs with a capacity of approximately 2.256 billion gallons, diversion facilities, wells, distribution storage of approximately 240 million gallons and all water facilities, equipment and other property necessary to supply its customers.

San Jose Water Company maintains all of its properties in good operating condition in accordance with customary proper practice for a water utility. San Jose Water Company's well pumping stations have a production capacity of approximately 264 million gallons per day and the present capacity for taking purchased water is approximately 172 million gallons per day. The gravity water collection system has a physical delivery capacity of approximately 25 million gallons per day. During 2001, a maximum and average of 199 million gallons and 138 million gallons of water per day, respectively, were delivered to the system.

San Jose Water Company holds all its principal properties in fee, subject to current tax and assessment liens, rights-of-way, easements, and certain minor clouds or defects in title which do not materially affect their use.

SJW Land Company owns approximately eight acres of property adjacent to San Jose Water Company's general office facilities, approximately five undeveloped acres of land and commercial properties in the San Jose Metropolitan area. The majority of the land adjacent to San Jose Water Company is used as surface parking facilities and generates approximately 52% of SJW Land Company's revenue. Under a ten-year lease expiring January 1, 2010, San Jose Water Company leased half of the office space from SJW Land Company's 1265 Bascom Avenue building as its engineering headquarters. Approximately 28% of SJW Land Company's revenue is generated from this commercial building. SJW Land Company also owns a 70% limited partnership interest in 444 West Santa Clara, L.P., a real estate limited partnership that owns and operates an office building.

Item 3. Legal Proceedings

None

Item 4. Submission of Matters to a Vote of Security Holders

None

7

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) Market Information

Exchange

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SJW Corp.'s common stock is traded on the American Stock Exchange under the symbol "SJW".

High and Low Sales Prices

The information required by this item as to the high and low sales prices for SJW Corp.'s common stock for each quarter in the 2001 and 2000 fiscal years is contained in the section captioned "Market price range of stock" in the tables set forth in Note 12 of "Notes to Consolidated Financial Statements" in Part II, Item 8.

(b) Holders

There were 793 record holders of SJW Corp.'s common stock on December 31, 2001.

SJW Corp.'s subsidiary, San Jose Water Company issued \$20,000,000 Series F unsecured 30-year senior notes on September 24, 2001. The Series F notes bear interest at 7.2%, are due on September 1, 2031 and were sold to an institutional accredited investor pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the "1933 Act"), under Section 4(2) of the 1933 Act.

(c) Dividends

Quarterly dividends have been paid on SJW Corp.'s and its predecessor's common stock for 233 consecutive quarters and the quarterly rate has been increased during each of the last 34 years. The information required by this item as to the cash dividends paid on common stock in 2001 and 2000 is contained in the section captioned "Dividends per share" in the tables set forth in Note 12 of "Notes to Consolidated Financial Statements" in Part II, Item 8. Future dividends will be determined by the Board of Directors after consideration of various financial, economic and business factors.

8

Item 6. Selected Financial Data

FIVE YEAR STATISTICAL REVIEW SJW CORP. AND SUBSIDIARIES

| | 2001 | 2000 | 1999 |
|---|------------|---------|---------|
| | ----- | ----- | ----- |
| Consolidated Results of Operations (in thousands) | | | |
| Operating revenue | \$ 136,083 | 123,157 | 117,000 |
| Operating expense: | | | |
| Operation | 84,156 | 76,622 | 69,260 |
| Maintenance | 7,090 | 6,881 | 6,630 |
| Taxes | 11,770 | 11,496 | 12,710 |
| Depreciation and amortization | 13,240 | 11,847 | 10,230 |

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| | | | |
|--|------------|---------|--------|
| Total operating expense | 116,256 | 106,846 | 98,85 |
| Operating income | 19,827 | 16,311 | 18,15 |
| Interest expense, other income and deductions | 5,810 | 5,646 | 2,26 |
| Net income | 14,017 | 10,665 | 15,88 |
| Dividends paid | 7,834 | 7,491 | 7,37 |
| Invested in the business | \$ 6,183 | 3,174 | 8,50 |
| Consolidated Per Share Data | | | |
| Net income | \$ 4.60 | 3.50 | 5.2 |
| Dividends paid | \$ 2.57 | 2.46 | 2.4 |
| Shareholders' equity at year-end | \$ 49.05 | 47.40 | 47.2 |
| Consolidated Balance Sheet (in thousands) | | | |
| Utility plant | \$ 507,227 | 462,892 | 432,26 |
| Less accumulated depreciation and amortization | 149,721 | 139,396 | 129,82 |
| Net utility plant | 357,506 | 323,496 | 302,43 |
| Nonutility property | 10,309 | 9,979 | 10,13 |
| Total assets | 431,017 | 391,930 | 372,42 |
| Capitalization: | | | |
| Shareholders' equity | 149,354 | 144,325 | 143,89 |
| Long-term debt (includes current maturities) | 110,000 | 90,000 | 90,00 |
| Total capitalization | \$ 259,354 | 234,325 | 233,89 |
| Other Statistics -- San Jose Water Company | | | |
| Customers at year-end | 219,000 | 218,500 | 217,20 |
| Average utility revenue per customer | \$ 612.78 | 556.99 | 534.9 |
| Investment in utility plant per customer | \$ 2,316 | 2,118 | 1,99 |
| Miles of main at year-end | 2,419 | 2,419 | 2,40 |
| Water production (million gallons) | 52,122 | 52,021 | 51,16 |
| Maximum daily production (million gallons) | 199 | 217 | 20 |
| Population served (estimate) | 988,000 | 985,000 | 979,00 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Description of the Business

SJW Corp. is a holding company with three subsidiaries. San Jose Water Company, a wholly owned subsidiary, is a public utility in the business of providing water service to a population of approximately 988,000 people in an area comprising about 138 square miles in the metropolitan San Jose area. SJW Land Company, a wholly owned subsidiary, owns and operates a 900-space surface parking facility located adjacent to the San Jose Compaq Center, commercial properties and several undeveloped real estate parcels in San Jose, and a 70% limited partnership interest in 444 West Santa Clara Street, L.P. Crystal Choice Water Service LLC, a 75% owned limited liability subsidiary formed in January 2001, engages in the sale and rental of water conditioning equipment. In addition, SJW Corp. owns 1,099,952 shares of California Water Service Group.

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The Terminated Merger

On October 28, 1999, SJW Corp. and American Water Works Company, Inc. (American Water) entered into an Agreement and Plan of Merger (Merger Agreement).

Following a CPUC ruling extending their approval schedule, American Water announced that it would terminate the Merger Agreement on April 28, 2001, the date after which either party had the right to terminate the Merger Agreement, and offered to consent to mutual termination of the agreement. On March 1, 2001, SJW Corp.'s Board of Directors decided that it would be in the best interest of the company to terminate the Merger Agreement, and accepted American Water's offer for mutual termination.

Critical Accounting Policies:

SJW Corp. has identified accounting policies below as the policies more critical to the business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and revenues and expenses. SJW Corp. bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 in "Notes to Consolidated Financial Statements". Our critical accounting policies are as follows:

Recognition of Balancing Account--The California Public Utilities Commission (CPUC) establishes a balancing account mechanism within its regulatory regime. A separate balancing account must be maintained for each offset expense item (e.g. purchased water, purchased power and pump tax). 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. In the last ten years, San Jose Water Company's balancing account showed an average under-collected balance of \$834,000. Since balances are being tracked and have to be approved by the CPUC before they could be affected into rates, SJW Corp. has not been recognizing the balancing account in its consolidated financial statements. Had the balancing account under-collection been recognized in San Jose Water Company's financial statements, San Jose Water Company's earnings would be increased by the amount of balancing account revenue under-collected. At December 31, 2001, the Balancing Account had a net under-collected balance of \$302,000. Please also see "Factors That May Affect Future Results" on the latest regulatory development regarding the balancing accounts.

Accrued unbilled revenue--San Jose Water Company reads its customer meters on a cycle basis and records its revenue based on its meter reading results. Revenues from the meter-reading date to the end of the accounting period are estimated based on historical usage patterns, production records, and the

effective tariff rates. The estimate of the unbilled revenue is a management estimate utilizing certain sets of assumptions and conditions. Actual results could differ from those estimates.

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Results of Operations

Consolidated Operating Revenue

| | 2001 | 2000 | 1999 |
|------------------------------|----------------|---------|---------|
| | ----- | ----- | ----- |
| | (in thousands) | | |
| San Jose Water Company | \$134,047 | 121,339 | 115,689 |
| SJW Land Company | 1,752 | 1,818 | 1,312 |
| Crystal Choice | 284 | -- | -- |
| | ----- | ----- | ----- |
| | \$136,083 | 123,157 | 117,001 |
| | ===== | ===== | ===== |

Consolidated operating revenue for 2001 increased \$12,926,000 or 10% over 2000 mainly due to rate increases resulting from San Jose Water Company's general rate case application in April 2001 and an offset rate increase for production costs adjustments in July 2001. Rate increases and new customers contributed \$10,899,000 and \$721,000, respectively, to 2001 revenue. A slightly higher overall water consumption in 2001 over 2000 contributed \$1,088,000 to revenue. In 2001, pursuant to a CPUC authorized regulatory adjustment on previously capitalized interest on utility plant under construction, San Jose Water Company refunded \$541,000 of revenue to customers which was accrued in 2000. SJW Land Company's parking revenue decreased slightly and is largely due to the level of events and activities at the San Jose Compaq Center located adjacent to its parking facility.

Consolidated operating revenue for 2000 increased by \$6,156,000 or 5% over 1999 due to a 3% increase in water consumption, which contributed \$2,638,000 to revenue. Rate increases and new customers contributed \$3,306,000 and \$778,000, respectively, to 2000 revenue. Included in the 2000 revenue was a provision of \$1,072,000 for a refund due to customers. The refund reflected a regulatory adjustment on previously capitalized interest on utility plant under construction, which was disallowed by the CPUC. SJW Land Company's revenue improved due to increased parking lot and office rental activities.

The following table represents revenues by customer groups of San Jose Water Company:

Revenue by Customer Groups

| | 2001 | 2000 | 1999 |
|-------------------------------------|----------------|---------|---------|
| | ----- | ----- | ----- |
| | (in thousands) | | |
| Residential & Business | \$122,345 | 111,032 | 106,063 |
| Industrial | 1,017 | 1,123 | 1,081 |
| Public Authorities | 7,827 | 6,861 | 6,561 |
| Other metered and non-metered | 2,858 | 2,323 | 1,984 |
| | ----- | ----- | ----- |
| | \$134,047 | 121,339 | 115,689 |
| | ===== | ===== | ===== |

Consolidated Operating Expense Before Taxes

| | 2001 | 2000 | 1999 |
|------------------------------|----------------|--------|--------|
| | ----- | ----- | ----- |
| | (in thousands) | | |
| San Jose Water Company | \$105,767 | 94,174 | 86,276 |

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| | | | |
|------------------------------------|-----------|--------|--------|
| SJW Land Company | 742 | 713 | 944 |
| Crystal Choice Water Service | 778 | -- | -- |
| SJW Corp. | 1,578 | 4,550 | 2,756 |
| | ----- | ----- | ----- |
| | \$108,865 | 99,437 | 89,976 |
| | ===== | ===== | ===== |

11

Below is an analysis of the changes in consolidated operating expenses:

| Operating Expense (in thousands) | Year ended 2001 vs 2000 | | Year ended 2000 vs 1999 | |
|---|----------------------------|-------|----------------------------|-------|
| | Increase/(decrease) | | Increase/(decrease) | |
| ----- | | | | |
| Production Costs: | | | | |
| Reduced surface water supply | \$ 2,111 | 2% | \$ 887 | 1% |
| Usage and new customers | 1,028 | 1 | 671 | 1 |
| Pump tax and purchased water price increase | 3,796 | 4 | 3,078 | 3 |
| Energy price increase | 3,456 | 3 | 89 | -- |
| | ----- | ----- | ----- | ----- |
| Total production costs | 10,391 | 10 | 4,725 | 5 |
| Operation and maintenance | (2,648) | (3) | 2,876 | 3 |
| Depreciation and amortization | 1,393 | 2 | 1,612 | 2 |
| General taxes | 292 | -- | 248 | 1 |
| | ----- | ----- | ----- | ----- |
| | \$ 9,428 | 9% | \$9,461 | 11% |
| | ===== | ===== | ===== | ===== |

The increase in production costs was due primarily to reduced surface water supply, the Santa Clara Valley Water District (SCVWD) production cost (pump tax and purchased water) price increases in July 2001, and the energy provider's power cost increases. Power cost has increased 90% in 2001 over 2000 due primarily to the energy provider's power price increases in January and March of 2001. San Jose Water Company received a corresponding rate increase associated with the water production and energy cost increases effective in July 2001. Additional energy costs were also incurred due to the scheduled maintenance of a SCVWD treatment plant which altered the company's distribution mix and optimal pumping pattern. Increases in operation and maintenance expenses for the year ended 2001 were more than offset by the reduction in the merger-related costs incurred in the year ended 2000 and the regulatory adjustment authorized by the CPUC. The merger-related costs were incurred in conjunction with the proposed merger of SJW Corp. with American Water Works Company, Inc. The merger was terminated on March 1, 2001. Depreciation expense increased due to higher investment in utility assets.

Consolidated operating expense in 2000, excluding income taxes, increased \$9,461,000, or 11%, in comparison with 1999 due to higher purchased water and pump tax rates, increased water consumption, and additional administrative compensation accrued in conjunction with the proposed merger. Consolidated operating expense also included a regulatory adjustment of \$621,000 to previously capitalized interest on utility plant under construction, which was disallowed by the CPUC.

In association with SJW Corp.'s proposed merger with American Water Works Company, Inc., certain merger-related expenses in the amount of \$1,614,000 and

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\$1,588,000 were incurred in 2000 and 1999, respectively, and are included in operation and maintenance expense.

| Sources of Supply | | | |
|-----------------------|-------------------|--------|--------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| | (million gallons) | | |
| Purchased water | 27,833 | 27,494 | 27,195 |
| Ground water | 21,368 | 19,788 | 18,438 |
| Surface water | 2,515 | 4,381 | 5,232 |
| Reclaimed water | 406 | 358 | 301 |
| | ----- | ----- | ----- |
| | 52,122 | 52,021 | 51,166 |
| | ===== | ===== | ===== |

Water production in 2001 increased 101 million gallons from 2000. Water production in 2000 increased 855 million gallons, or 2%, over 1999. The changes are consistent with the related operating expenses.

12

Income Tax Expense

The effective consolidated income tax rates for 2001, 2000 and 1999 were 35%, 41% and 41%, respectively. The 2001 effective tax rate was below the rates for the prior years due to tax benefits associated with certain merger-related expenses. Refer to Note 6 of the "Notes to Consolidated Financial Statements" for the reconciliation of income tax expense to the amount computed by applying the federal statutory rate to income before income taxes.

Other Income and Expense

The 2001 dividend income increased \$16,000, or 1.3%, over 2000 due to a \$0.015 per share increase in the California Water Service Group annual dividend.

SJW Corp.'s interest cost on long-term debt in 2001, including capitalized interest, remained consistent with 2000. SJW Corp.'s weighted average cost of long-term debt, including amortization of debt issuance costs, was 7.9% for the year ended December 31, 2001, and 8.0% for the years ended 2000 and 1999.

Other income in 1999 included a gain on sale of nonutility property to an affiliated party of \$3,064,000, net of income tax of \$2,107,000.

Liquidity and Capital Resources

Capital Requirements

San Jose Water Company's budgeted capital expenditures for 2002, exclusive of capital expenditures financed by customer contributions and advances, are as follows:

Budgeted Capital Expenditures

2002

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| ----- | | |
|-----------------------------------|----------|------|
| (in thousands) | | |
| Source of supply | \$ 485 | 2% |
| Reservoirs and tanks | 6,101 | 24% |
| Pump stations and equipment | 2,236 | 9% |
| Distribution system | 14,921 | 58% |
| Equipment and other | 1,922 | 7% |
| | ----- | --- |
| | \$25,665 | 100% |
| | ===== | === |

The 2002 capital budget is concentrated in main replacements and facility relocation. Approximately \$15,000,000 will be spent to systematically renew San Jose Water Company's aging infrastructure and \$3,500,000 to upgrade the company's water treatment facilities.

San Jose Water Company expects to incur approximately \$130,000,000, exclusive of customer contributions and advances, in capital expenditures over the next five years. The company's actual capital expenditures may vary from its projection 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 by several million dollars because certain new facilities are constructed using advances from developers and contributions in aid of construction.

Most of San Jose Water Company's distribution system has been constructed over the last 40 years. 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. Additionally, in most cases, replacement cost will significantly exceed the original installation cost of the retired asset due to increases in the cost of goods and services.

In 2002, SJW Corp. expects to invest \$550,000 in Crystal Choice Water Service LLC for its 75% share of capital investment. The capital is invested primarily in rental equipment used by the limited liability company in its rental operation.

Off Balance Sheet Arrangement

SJW Corp.'s financial statements include the accounts of SJW Corp. and its wholly owned and majority-owned subsidiaries. SJW Land Company has a 70% limited partnership interest in a real estate investment partnership, 444 West Santa Clara Street, L.P. The limited partnership obtained a mortgage loan in the amount of \$4,500,000 in 2001. The mortgage loan is non-recourse to SJW Land Company.

Sources of Capital

San Jose Water Company's ability to finance future construction programs and sustain dividend payments depends on its ability to attract external financing and maintain or increase internally generated funds. 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.

In September 2001, San Jose Water Company issued \$20,000,000 in a Series F unsecured 30-year senior note.

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Over the past five years, SJW Corp. has paid its shareholders, in the form of dividends, an average of 52% of its net income. The remaining earnings have been reinvested. Capital requirements not funded by earnings are expected to be funded through external financing in the form of unsecured senior notes or a commercial bank line of credit. As of December 31, 2001, SJW Corp. and its subsidiaries had \$18,500,000 of unused line of credit and over \$100,000,000 of borrowing capacity under the terms of the senior note agreements.

San Jose Water Company's financing activity is designed to achieve a capital structure consistent with regulatory guidelines of approximately 50% debt and 50% equity.

SJW Corp.'s contractual obligation and combined commitments as of December 31, 2001 are as follows:

| | Contractual Obligations (dollars in thousands) Due in | | | |
|--|---|---------------------|-----------|-------|
| | Total | Less than 1 year | 1-5 years | After |
| | ----- | ----- | ----- | ----- |
| Long-Term Debt | \$110,000 | -- | -- | 110 |
| | ----- | --- | --- | --- |
| Total Contractual Cash Obligations | \$110,000 | -- | -- | 110 |
| | ===== | === | === | === |

Please see Note 7 of the "Notes to Consolidated Financial Statements" for the contractual commitment with SCVWD.

| | Other Commercial Commitments (dollars in thousands) Due in | | | |
|------------------------------------|--|---------------------|-----------|-----------------|
| | Total Amounts Committed | Less than 1 year | 1-3 years | Over 4 years |
| | ----- | ----- | ----- | ----- |
| Lines of Credit | \$30,000 | -- | 30,000 | -- |
| | ----- | --- | ----- | --- |
| Total Commercial Commitments | \$30,000 | -- | 30,000 | -- |
| | ===== | === | ===== | === |

Related Party Transaction

SJW Land Company has a 70% limited partnership interest in a real estate limited partnership, 444 West Santa Clara Street, L.P. A real estate development firm, which is partially owned by an individual who also serves as a director of SJW Corp., owns the remaining 30% partnership interest. A commercial building was constructed on the partnership property and is leased to an international real estate firm under a lease expiring on June 1, 2012. The partnership is being accounted for under the equity method of accounting.

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Factors That May Affect Future Results

San Jose Water Company's cash flow is largely dependent on the retail sale of potable water to its customers within its service area. Demand for San Jose Water Company's service is steady and consistent

14

except for periods when restrictions for water use are implemented. During certain periods in 1989-1993, San Jose Water Company implemented measures to restrict customers' water use at the request of its water wholesaler.

Regulated Operations

The results of operations of San Jose Water Company generally depend on the following factors: (1) regulation, (2) surface water supply, and (3) operation and maintenance expense.

Regulation

Principally all the operating revenue of San Jose Water Company results from the sale of water at rates authorized by the CPUC. The CPUC sets rates that are intended to provide revenue sufficient to recover operating expenses and produce a reasonable return on common equity. The company's most recent rate decision, approved in April 2001, authorized it to earn a return on common equity of 9.95% in 2001, 2002 and 2003, which is within the range of recent rates of return authorized by the CPUC for water utilities.

Pursuant to Section 792.5 of the California Public Utilities Code, a balancing account is to be kept for all expense items for which revenue offsets have been authorized. A separate balancing account must be maintained for each offset expense item (e.g., purchased water, purchased power and pump tax). 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.

On November 29, 2001, the CPUC issued Resolution W-4294 (Resolution) implementing significant changes in the long established offset rate increase and balancing account procedures of water utilities, which could have a significant impact on the risk profile of the industry. Specifically, the Resolution provides that (1) the CPUC will open an Order Instituting Rulemaking (OIR) to evaluate existing balancing account and offset rate practices and policies, (2) all water companies with existing balancing accounts shall, effective as of the date of the Resolution, suspend such balancing accounts pending the outcome of the OIR, and (3) water utilities can request future offset rate increases provided they pass a pro-forma summary of earnings test. It is uncertain how the future CPUC regulation will affect San Jose Water Company's ability to continue to collect the Balancing Account under-collection and to receive future offset rate relief.

To the extent that San Jose Water Company has to pump water during peak periods to satisfy customer demand when imported water is not available, higher energy cost will be incurred. Currently, the CPUC has no established procedure for water utilities to recover additional costs incurred due to such unanticipated changes in supply mix.

In November 2001, San Jose Water Company filed an advice letter requesting a step rate increase in the amount of \$3,600,000 which became effective January 1, 2002.

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Surface Water Supply

The level of surface water available in each year depends on the amount of rainfall and run-off collected in San Jose Water Company's Santa Cruz Mountains reservoirs. In a normal year, surface supply provides 6-8% of the total water supply of the system. Surface water is a less costly source of water and its availability may significantly impact the results of operations.

Operation and Maintenance Expense

San Jose Water Company reached an agreement with its unionized personnel covering 2001 through 2003. The agreement includes a 4% wage increase for all years and minor benefit modifications.

Environmental Matters

San Jose Water Company's operations are subject to water quality and pollution control regulations issued by the United States Environmental Protection Agency (EPA), the California Department of

15

Health Services (DHS) and the California Regional Water Quality Control Board. The company is also subject to environmental laws and regulations administered by other state and local regulatory agencies.

Under the federal Safe Drinking Water Act (SDWA), San Jose Water Company is subject to regulation by the EPA of the quality of water it sells and treatment techniques it uses to make the water potable. The EPA promulgates nationally applicable maximum contaminant levels (MCLs) for drinking water. San Jose Water Company is currently in compliance with all of the 87 primary MCLs promulgated to date. However, the EPA and DHS have continuing authority to issue additional regulations under the SDWA. San Jose Water Company has implemented monitoring activities and installed specific water treatment improvements enabling it to comply with all existing MCLs and plan for compliance with future drinking water regulations. On October 31, 2001, the EPA announced its decision to move forward in implementing the new standard for arsenic in drinking water at 10 parts per billion (ppb). The EPA had finalized the new regulations revising the primary standard for arsenic from 50 ppb down to 10 ppb on January 22, 2001, but then delayed the effectiveness of the regulation for further review. San Jose Water Company has monitored its water supply sources for arsenic and is in compliance with the new regulations.

Other state and local environmental regulations apply to San Jose Water Company's operations and facilities. These regulations relate primarily to the handling, storage and disposal of hazardous materials. San Jose Water Company is currently in compliance with state and local regulations governing hazardous materials, point and non-point source discharges, and the warning provisions of the California Safe Drinking Water and Toxic Enforcement Act of 1986.

Future drinking water regulations may require increased monitoring, additional treatment of underground water supplies, fluoridation of all supplies, more stringent performance standards for treatment plants and procedures to reduce levels of disinfection by-products. San Jose Water Company continues to seek to establish mechanisms for recovery of government-mandated environmental compliance costs. However, currently, there are limited regulatory mechanisms and procedures available to the company for the recovery of such costs and there can be no assurance that such costs will be fully recovered.

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Nonregulated Operations

The investment in California Water Service Group is expected to produce 2002 pre-tax dividend income and cash flow of approximately \$1,200,000. SJW Land Company's parking revenue is largely dependent upon the level of events and activities at the San Jose Compaq Center, which is located adjacent to its parking facility. SJW Land Company's commercial property and the property developed by the limited partnership, of which SJW Land Company owns a 70% limited interest, are fully leased.

The operating results of the City of Cupertino municipal water system are largely dependent on the level of operation, maintenance and capital costs incurred. In January 2000, San Jose Water Company completed its phase-in of its regular water service rates within the City of Cupertino. Further changes in water service rates will be subject to the approval of the Cupertino City Council.

Impact of Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets".

SFAS No. 141 addresses the accounting for and reporting of business combinations and supersedes APB Opinion No. 16 "Business Combinations", and SFAS No. 38 "Accounting for Preacquisition Contingencies of Purchased Enterprises". SFAS No. 141 requires that all business combinations be accounted for using the purchase method of accounting for acquisitions and eliminates the use of the pooling method. This Statement applies to all business combinations initiated after June 30, 2001. SJW Corp. does not anticipate that the adoption of SFAS No. 141 will have a material effect on its consolidated financial statements.

16

SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets". SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only method. The amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of the statement, which will begin with the SJW Corp.'s fiscal year starting January 1, 2002. As of December 31, 2001 the balance of existing goodwill subject to periodic impairment testing was \$1,744,000. If in a future period, the company determines that goodwill is impaired, the impairment write down could have a material impact on earnings for that period.

In August 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which applies to legal obligations that are associated with the retirement of long-lived assets and the associated asset retirement costs. The statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. SJW Corp. does not anticipate that the adoption of SFAS No. 143 will have a material effect on SJW Corp.'s financial condition and results of operation.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The statement is effective for financial statements issued for fiscal

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years beginning after December 15, 2001. SJW Corp. does not anticipate that the adoption of SFAS No. 144 will have a material impact on SJW Corp.'s financial condition and results of operation.

Item 7A. 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 and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed-rate, long-term debt. Refer to Note 5 of the "Notes to Consolidated Financial Statements" for the fair value of financial instruments. SJW Corp. also owns 1,099,952 shares of California Water Service Group and is exposed to the risk of 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. There is no material sensitivity to changes in market rates and prices.

17

Item 8. Financial Statements and Supplementary Data.

Independent Auditors' Report

The Shareholders and Board of Directors
SJW Corp.

We have audited the accompanying consolidated balance sheets of SJW Corp. and subsidiaries (the Company) as of December 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2001. In connection with our audits of the consolidated financial statements, we also have audited the accompanying financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SJW Corp. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all

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material respects, the information set forth therein.

KPMG LLP

Mountain View, California
January 18, 2002

18

SJW CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | D |
|---|---------|
| | ----- |
| | 200 |
| | ----- |
| | (in t |
| | share a |
| ASSETS | |
| UTILITY PLANT | \$ 499, |
| INTANGIBLE ASSETS | 7, |
| | ----- |
| | 507, |
| LESS ACCUMULATED DEPRECIATION AND AMORTIZATION | 149, |
| | ----- |
| | 357, |
| | ----- |
| NONUTILITY PROPERTY | 10, |
| CURRENT ASSETS: | |
| Cash and equivalents | 5, |
| Accounts receivable: | |
| Customers | 6, |
| Other | 7, |
| Accrued utility revenue | 7, |
| Materials and supplies, at average cost | 7, |
| Prepaid expenses | 7, |
| | ----- |
| | 20, |
| | ----- |
| OTHER ASSETS: | |
| Investment in California Water Service Group | 28, |
| Investment in joint venture | 1, |
| Unamortized debt issuance and reacquisition costs | 3, |
| Goodwill | 1, |
| Regulatory assets | 5, |
| Other | 2, |
| | ----- |
| | 42, |
| | ----- |
| | \$ 431, |
| | ===== |
| CAPITALIZATION AND LIABILITIES | |
| CAPITALIZATION: | |
| Shareholders' equity: | |

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| | |
|---|---------|
| Common stock, \$3.125 par value; authorized 6,000,000 shares; issued 3,045,147 shares | \$ 9, |
| Additional paid-in capital | 12, |
| Retained earnings | 122, |
| Accumulated other comprehensive income | 5, |
| | ----- |
| Long-term debt | 149, |
| | 110, |
| | ----- |
| | 259, |
| | ----- |
| CURRENT LIABILITIES: | |
| Line of credit | 11, |
| Accrued pump taxes and purchased water | 3, |
| Accounts payable | |
| Accrued interest | 3, |
| Accrued taxes | 1, |
| Accrued employee compensation | |
| Refunds due to customers | |
| Other current liabilities | 4, |
| | ----- |
| | 24, |
| | ----- |
| DEFERRED INCOME TAXES | 24, |
| UNAMORTIZED INVESTMENT TAX CREDITS | 2, |
| ADVANCES FOR CONSTRUCTION | 64, |
| CONTRIBUTIONS IN AID OF CONSTRUCTION | 50, |
| DEFERRED REVENUE | 1, |
| OTHER NONCURRENT LIABILITIES | 4, |
| COMMITMENTS | |
| | \$ 431, |
| | ===== |

See accompanying Notes to Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| | Years ended December 31 | |
|-------------------------|--|---------|
| | 2001 | 2000 |
| | (in thousands, except share and per share data) | |
| OPERATING REVENUE | \$ 136,083 | 123,157 |
| OPERATING EXPENSE: | | |
| Operation: | | |
| Purchased water | 33,500 | 29,709 |
| Power | 7,814 | 4,121 |
| Pump taxes | 21,047 | 18,140 |

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| | | |
|---|-----------|-----------|
| Other | 21,795 | 24,652 |
| Maintenance | 7,090 | 6,881 |
| Property taxes and other nonincome taxes | 4,379 | 4,087 |
| Depreciation and amortization | 13,240 | 11,847 |
| Income taxes | 7,391 | 7,409 |
| | ----- | ----- |
| | 116,256 | 106,846 |
| | ----- | ----- |
| OPERATING INCOME | 19,827 | 16,311 |
| OTHER (EXPENSE) INCOME: | | |
| Interest on long-term debt | (6,737) | (6,434) |
| Gain on sale of nonutility property, net | -- | -- |
| Dividends | 1,226 | 1,210 |
| Other | (299) | (422) |
| | ----- | ----- |
| NET INCOME | \$ 14,017 | 10,665 |
| | ===== | ===== |
| OTHER COMPREHENSIVE LOSS: | | |
| Unrealized loss on investment, net of taxes of \$564 in 2001, \$1,493 in 2000, and \$451 in 1999 | (811) | (2,150) |
| Minimum pension liability adjustment, net of taxes of \$236 in 2001 and \$407 in 2000 | (343) | (593) |
| | ----- | ----- |
| Other comprehensive loss, net | (1,154) | (2,743) |
| | ----- | ----- |
| COMPREHENSIVE INCOME | \$ 12,863 | 7,922 |
| | ===== | ===== |
| BASIC EARNINGS PER SHARE | \$ 4.60 | 3.50 |
| | ===== | ===== |
| COMPREHENSIVE INCOME PER SHARE | \$ 4.22 | 2.60 |
| | ===== | ===== |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 3,045,147 | 3,045,147 |
| | ===== | ===== |

See accompanying Notes to Consolidated Financial Statements.

20

SJW CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income |
|--|-----------------|----------------------------------|----------------------|---|
| | ----- | ----- | ----- | ----- |
| | (in thousands) | | | |
| BALANCES, DECEMBER 31, 1998 | \$ 9,899 | 19,085 | 104,553 | 9,612 |
| Net income | -- | -- | 15,884 | -- |
| Other comprehensive loss -- | | | | |
| Unrealized loss on investment, net of tax effect of \$451 | -- | -- | -- | (649) |
| Comprehensive income | | | | |

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| | | | | |
|--|----------|---------|---------|---------|
| Purchase and retirement of common stock | (383) | (6,728) | -- | -- |
| Dividends paid | -- | -- | (7,379) | -- |
| | ----- | ----- | ----- | ----- |
| BALANCES, DECEMBER 31, 1999 | 9,516 | 12,357 | 113,058 | 8,963 |
| Net income | -- | -- | 10,665 | -- |
| Other comprehensive loss -- | | | | |
| Unrealized loss on investment, net of tax effect of \$1,493 | -- | -- | -- | (2,150) |
| Minimum pension liability adjustment, net of tax effect of \$407 | -- | -- | -- | (593) |
| Comprehensive income | | | | |
| Dividends paid | -- | -- | (7,491) | -- |
| | ----- | ----- | ----- | ----- |
| BALANCES, DECEMBER 31, 2000 | 9,516 | 12,357 | 116,232 | 6,220 |
| Net income | -- | -- | 14,017 | -- |
| Other comprehensive loss -- | | | | |
| Unrealized loss on investment, net of tax effect of \$564 | -- | -- | -- | (811) |
| Minimum pension liability adjustment, net of tax effect of \$236 | -- | -- | -- | (343) |
| Comprehensive income | | | | |
| Dividends paid | -- | -- | (7,834) | -- |
| | ----- | ----- | ----- | ----- |
| BALANCES, DECEMBER 31, 2001 | \$ 9,516 | 12,357 | 122,415 | 5,066 |
| | ===== | ===== | ===== | ===== |

See accompanying Notes to Consolidated Financial Statements.

21

SJW CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years ended December 31, | | |
|---|--------------------------|---------|---------|
| | 2001 | 2000 | 1999 |
| | (in thousands) | | |
| OPERATING ACTIVITIES: | | | |
| Net income | \$ 14,017 | 10,665 | 15,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 13,240 | 11,847 | 10,000 |
| Deferred income taxes and credits | 1,993 | (1,538) | 1,000 |
| Gain on sale of nonutility property, net | -- | -- | (3,000) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable and accrued utility revenue | (973) | (545) | (1,000) |
| Accounts payable and other current liabilities | 789 | 680 | (2,000) |
| Accrued employee compensation | (3,024) | 2,404 | 1,000 |
| Refund due to customers | (541) | 1,072 | 1,000 |

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| | | | |
|--|----------|----------|-----|
| Accrued pump taxes and purchased water | (1,538) | 1,557 | |
| Accrued taxes | 916 | (3,583) | |
| Other changes, net | 575 | 1,475 | |
| | ----- | ----- | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 25,454 | 24,034 | 23 |
| | ----- | ----- | |
| INVESTING ACTIVITIES: | | | |
| Additions to utility plant | (47,672) | (33,671) | (32 |
| Cost to retire utility plant, net of salvage | (1,302) | (678) | (1 |
| Additions to nonutility property | (330) | (94) | |
| Proceeds from sale of nonutility property | -- | -- | 5 |
| | ----- | ----- | |
| NET CASH USED IN INVESTING ACTIVITIES | (49,304) | (34,443) | (28 |
| | ----- | ----- | |
| FINANCING ACTIVITIES: | | | |
| Dividends paid | (7,834) | (7,491) | (7 |
| Repayment of line of credit | (61,075) | (11,500) | (4 |
| Borrowings from line of credit | 61,375 | 19,400 | 7 |
| Advances and contributions in aid of construction | 17,246 | 12,276 | 9 |
| Refunds of advances | (1,624) | (1,617) | (1 |
| Proceeds from issuance of long-term debt | 20,000 | -- | |
| Purchase and retirement of common stock | -- | -- | (7 |
| | ----- | ----- | |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 28,088 | 11,068 | (3 |
| | ----- | ----- | |
| NET CHANGE IN CASH AND EQUIVALENTS | 4,238 | 659 | (7 |
| CASH AND EQUIVALENTS, BEGINNING OF YEAR | 783 | 124 | 8 |
| | ----- | ----- | |
| CASH AND EQUIVALENTS, END OF YEAR | \$ 5,021 | 783 | |
| | ===== | ===== | |
| Cash paid during the year for: | | | |
| Interest | \$ 7,730 | 7,413 | 7 |
| Income taxes | \$ 4,188 | 12,838 | 8 |

See accompanying Notes to Consolidated Financial Statements.

22

SJW CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2001, 2000, and 1999
(Dollars in thousands, except share data)

Note. 1 Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of SJW Corp. and its wholly owned and majority-owned subsidiaries. Intercompany transactions and balances have been eliminated.

SJW Corp.'s principal subsidiary, San Jose Water Company, is a regulated California water utility providing water service to the greater metropolitan San Jose area. San Jose Water Company's accounting policies comply with the applicable uniform system of accounts prescribed by the California Public Utilities Commission (CPUC) and conform to generally accepted accounting principles for rate-regulated public utilities. Approximately 90% of San Jose Water Company's revenue is derived from the sale of water to residential and

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business customers.

SJW Land Company, a wholly owned subsidiary of SJW Corp., owns and operates a 900-space surface parking facility adjacent to the San Jose Compaq Center, commercial properties in San Jose, a 70% limited partnership interest in 444 West Santa Clara Street, L.P., and several undeveloped real estate parcels in San Jose.

Crystal Choice Water Service LLC, a 75% majority-owned limited liability subsidiary formed in January 2001, engages in the sale and rental of water conditioning equipment in the metropolitan San Jose area.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility Plant

The cost of additions, replacements and betterments to utility plant is capitalized. The amount of interest capitalized in 2001, 2000, and 1999 was \$617, \$532, and \$414, respectively. Construction in progress was \$9,303, \$5,921, and \$3,602, at December 31, 2001, 2000, and 1999, respectively.

Depreciation is computed using the straight-line method over the estimated service lives of the assets, ranging from 5 to 75 years. For the years 2001, 2000 and 1999 the aggregate provisions for depreciation approximated 2.8%, 2.7% and 2.4%, respectively, of the depreciable plant at the beginning of the year. The cost of utility plant retired, including retirement costs (less salvage), is charged to accumulated depreciation and no gain or loss is recognized.

Rate-regulated enterprises are required to charge a regulatory asset to earnings if and when that asset no longer meets the criteria for being recorded as a regulatory asset. In 2000, San Jose Water Company included in its operating expense a regulatory adjustment of \$621 of previously capitalized interest on utility plant under construction which was disallowed by the CPUC. The company continually evaluates the recoverability of utility plant by assessing whether the amortization of the balance over the remaining life can be recovered through the expected and undiscounted future cash flows.

Intangible Assets

Intangible assets consist of \$6,800 concession fees paid to the City of Cupertino for operating the City of Cupertino municipal water system, and other intangibles associated with the operation of San Jose Water Company. All intangible assets are recorded at cost and are amortized using the straight-line method over the legal or estimated economic life of the asset, whichever is shorter, not to exceed 40 years.

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(Dollars in thousands, except share data)

The company continually evaluates the recoverability of the intangibles by assessing whether the amortization of the balance over the remaining life can be recovered through the expected and undiscounted future cash flows.

Nonutility Property

Nonutility property is recorded at cost and consists primarily of land, buildings and parking facilities. Depreciation is computed using accelerated depreciation methods over the estimated useful lives of the assets, ranging from 5 to 39 years.

Cash and Equivalents

Cash and equivalents include certain highly liquid investments with remaining maturities of three months or less when purchased. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

Financial Instruments

The carrying amount of SJW Corp.'s current assets and liabilities that are considered financial instruments approximates their fair value as of dates presented due to the short maturity of these instruments.

Investment in California Water Service Group

SJW Corp.'s investment in California Water Service Group is reported at quoted market price, with the unrealized gain or loss reported as other comprehensive income.

Comprehensive Income

The accumulated balance of other comprehensive income is reported in the equity section of the financial statements and includes the unrealized gain or loss on the California Water Service Group investment, and the net of tax additional minimum pension liability adjustment related to the company sponsored Executive Supplemental Retirement Plan.

Other Assets

Debt reacquisition costs are amortized over the term of the new debt. Debt issuance costs are amortized over the life of each issue. The excess cost over fair market value of net assets acquired is recorded as goodwill and amortized over the periods estimated to be benefited, not exceeding 40 years. Management periodically evaluates the recoverability of goodwill by assessing whether the amortization of the balance over remaining life can be recovered through expected and undiscounted future cash flow to determine if impairment has occurred.

Income Taxes and Regulatory Assets

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the effect of temporary differences between financial and tax reporting. Deferred tax assets and

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liabilities are measured using enacted tax rates applicable to future years.

To the extent that the tax benefits of the temporary differences have previously been passed through to customers through lower water rates, management anticipates that the payment of the future tax

24

SJW CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001, 2000, and 1999 --(Continued)
(Dollars in thousands, except share data)

liabilities resulting from the reversal of the temporary differences will be recoverable through rates. Therefore, a regulatory asset has been recorded for the portion of net deferred tax liabilities which are expected to be recovered through future rates. The temporary differences are primarily related to the differences between federal and state book and tax depreciation on property placed in service before the adoption by the CPUC of full normalization for rate making purposes. Although realization is not assured, management believes it is more likely than not that all of the regulatory asset will be realized.

To the extent permitted by the CPUC, investment tax credits resulting from utility plant additions are deferred and amortized over the estimated useful lives of the related property.

Advances for Construction and Contributions in Aid of Construction

Advances for construction received after 1981 are being refunded ratably over 40 years. Prior customer advances are refunded based on 22% of related revenues. Estimated refunds for 2002 are \$1,625.

Contributions in aid of construction represent funds received from developers that are not refundable under CPUC regulations. Depreciation applicable to utility plant constructed with these contributions is charged to contributions in aid of construction.

Customer advances and contributions in aid of construction received subsequent to 1986 and prior to June 12, 1996 generally must be included in federal taxable income. Taxes paid relating to advances and contributions are recorded as deferred tax assets for financial reporting purposes and are amortized over 40 years for advances, and over the tax depreciable life of the related asset for contributions. Receipts subsequent to June 12, 1996 are generally exempt from federal taxable income.

Advances and contributions received subsequent to 1991 and prior to 1997 are included in state taxable income.

Revenue

Revenue of San Jose Water Company includes amounts billed to customers and unbilled amounts based on estimated usage from the latest meter reading to the end of the year. 2001, 2000 and 1999 operating revenue includes \$2,912, \$2,706, and \$2,392 respectively, from the operation of the City of Cupertino municipal water system. 2000 revenue also included a provision of \$1,072 for a refund due to customers, out of which \$541 was refunded in 2001. The refund reflected a regulatory adjustment on previously capitalized interest on utility plant under construction that was disallowed by the CPUC.

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Earnings Per Share

Basic earnings per share and comprehensive income per share are calculated using income available to common shareholders and comprehensive income, respectively, divided by the weighted average number of shares outstanding during the year. SJW Corp. has no dilutive securities, and accordingly, diluted earnings per share is not shown.

Business Segment Information

SJW Corp. and its subsidiaries operate predominantly in one reportable business segment of providing water utility service to its customers. Nonutility revenue, assets and net income do not have a material effect on SJW Corp.'s financial condition and results of operations.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year's presentation.

25

SJW CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001, 2000, and 1999 --(Continued)
(Dollars in thousands, except share data)

Note 2. Capitalization

At December 31, 2001 and 2000, 176,407 shares of \$25 par value preferred stock were authorized and unissued.

In 1999 SJW Corp. repurchased 122,400 shares of its outstanding common stock at the prevailing market price in the open market at an aggregate cost of \$7,111. All repurchased shares have been canceled and are considered authorized and unissued.

Note 3. Line of Credit

SJW Corp. and its subsidiaries have available an unsecured bank line of credit, allowing aggregate short-term borrowings of up to \$30,000. This line of credit bears interest at variable rates and expires on August 1, 2003. The following table represents borrowings under these bank lines of credits:

| | 2001 | 2000 | 1999 |
|--------------------------------------|-----------|--------|-------|
| Maximum short-term borrowing | \$ 26,100 | 11,200 | 3,400 |
| Average amount outstanding | 12,650 | 5,847 | 2,708 |
| Weighted average interest rate | 5.3% | 7.6% | 6.1% |
| Interest rate at December 31 | 3.8% | 7.4% | 7.1% |

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Note 4. Gain On Sale of Nonutility Property

In December 1999, SJW Land Company sold nonutility property to a company partially owned by a director of SJW Corp., receiving consideration of \$5,250 in cash. The transaction resulted in a gain of \$3,064, net of income tax expense of \$2,107. The transaction was negotiated at arms length supported by independent appraisals.

Note 5. Long-term Debt

Long-term debt as of December 31 was as follows:

| Description | Due Date | 2001 | 2000 |
|----------------------------|----------|-----------|--------|
| Senior notes: | | | |
| A 8.58% | 2022 | \$ 20,000 | 20,000 |
| B 7.37% | 2024 | 30,000 | 30,000 |
| C 9.45% | 2020 | 10,000 | 10,000 |
| D 7.15% | 2026 | 15,000 | 15,000 |
| E 6.81% | 2028 | 15,000 | 15,000 |
| F 7.20% | 2031 | 20,000 | -- |
| | | ----- | ----- |
| Total long-term debt | | \$110,000 | 90,000 |
| | | ===== | ===== |

Senior notes held by institutional investors are unsecured obligations of San Jose Water Company and require interest-only payments until maturity. To minimize issuance costs, all of the company's debt has historically been privately placed. The fair value of long-term debt as of December 31, 2001 and 2000 was approximately \$111,282 and \$92,291, respectively, using a discounted cash flow analysis, based on the current rates for similar financial instruments of the same duration.

26

SJW CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001, 2000, and 1999 --(Continued)
(Dollars in thousands, except share data)

Note 6. Income Taxes

The following table reconciles income tax expense to the amount computed by applying the federal statutory rate of 35% to income before income taxes:

| | 2001 | 2000 | 1999 |
|--|---------|-------|-------|
| "Expected" federal income tax | \$7,492 | 6,326 | 9,400 |
| Increase (decrease) in taxes attributable to: | | | |
| Utility plant basis | 94 | (69) | () |
| State taxes, net of federal income tax benefit | 1,229 | 1,039 | 1,540 |
| Dividend received deduction | (300) | (296) | (290) |
| Merger related expense deduction | (937) | -- | -- |

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| | | | |
|------------------------|---------|-------|-------|
| Other items, net | (187) | 409 | 33 |
| | ----- | ----- | ----- |
| | \$7,391 | 7,409 | 10,98 |
| | ===== | ===== | ===== |

The components of income tax expense were:

| | 2001 | 2000 | 1999 |
|---|---------|---------|-------|
| | ----- | ----- | ----- |
| Current: | | | |
| Federal | \$3,946 | 7,070 | 7,93 |
| State | 1,274 | 2,131 | 2,41 |
| Deferred: | | | |
| Federal | 1,795 | (1,264) | 68 |
| State | 376 | (528) | (5) |
| | ----- | ----- | ----- |
| | \$7,391 | 7,409 | 10,98 |
| | ===== | ===== | ===== |
| Income taxes included in operating expense | \$7,391 | 7,409 | 8,87 |
| Income taxes included in gain on sale of nonutility property | -- | -- | 2,10 |
| | ----- | ----- | ----- |
| | \$7,391 | 7,409 | 10,98 |
| | ===== | ===== | ===== |

27

SJW CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001, 2000, and 1999 --(Continued)

(Dollars in thousands, except share data)

The components of the net deferred tax liability as of December 31 were as follows:

| | 2001 | 2000 |
|--|----------|--------|
| | ----- | ----- |
| Deferred tax assets: | | |
| Advances and contributions | \$14,228 | 14,429 |
| Unamortized investment tax credit | 1,128 | 1,157 |
| Pensions and postretirement benefits | 1,265 | 993 |
| California franchise tax | 708 | 792 |
| Other | 700 | 2,207 |
| | ----- | ----- |
| Total deferred tax assets | 18,029 | 19,578 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Utility plant | 29,701 | 28,819 |
| Investment | 9,358 | 9,922 |

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| | | |
|--------------------------------------|----------|--------|
| Debt reacquisition costs | 1,091 | 1,140 |
| Other | 2,490 | 2,260 |
| | ----- | ----- |
| Total deferred tax liabilities | 42,640 | 42,141 |
| | ----- | ----- |
| Net deferred tax liabilities | \$24,611 | 22,563 |
| | ===== | ===== |

Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not SJW Corp. will realize the benefits of these deductible differences.

Note 7. Commitments

San Jose Water Company purchases water from Santa Clara Valley Water District (SCVWD). Delivery schedules for purchased water are based on a contract year beginning July 1, and are negotiated every three years under terms of a master contract with SCVWD expiring in 2051. Based on current prices and estimated deliveries, San Jose Water Company expects to purchase annually a minimum of 90% of the delivery schedule, or 19,800 million gallons (\$24,900) of water, from SCVWD in the contract year ending June 30, 2002.

In 1997, San Jose Water Company entered into a 25-year contract agreement with the City of Cupertino to operate the City's municipal water system. Under the terms of the contract agreement, San Jose Water Company assumed responsibility for all maintenance, operating and capital costs, while receiving all payments for water service. Water service rates are subject to approval by the Cupertino City Council.

Note 8. Joint Venture

In September 1999, SJW Land Company formed 444 West Santa Clara Street, L.P., a limited partnership, with a real estate development firm whereby SJW Land Company contributed real property in exchange for a 70% limited partnership interest. The real estate development firm is partially owned by an individual who also serves as a director of SJW Corp. A commercial building was constructed on the partnership property and is leased to an international real estate firm under a lease expiring on June 1, 2012. The partnership is being accounted for under the equity method of accounting. Included in the Consolidated Statements of Income and Comprehensive Income is SJW Land Company's share of the partnership earnings of \$165 in 2001 and \$96 in 2000.

28

SJW CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001, 2000, and 1999 --(Continued)
(Dollars in thousands, except share data)

Note 9. Crystal Choice Water Service LLC

In January 2001, SJW Corp. formed Crystal Choice Water Service LLC, a limited liability company, with Kinetico, Incorporated, a water conditioning equipment manufacturer. Crystal Choice Water Service LLC engages in the sale and rental of water conditioning equipment. SJW Corp. owns 75% of the joint venture and has invested \$850 in the first year of operation. The consolidated

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financial statements of SJW Corp. at December 31, 2001 include the operating results of Crystal Choice Water Service LLC. Inter-company balances were eliminated. Minority interest loss of \$121 has been included in Other income in the Consolidated Statements of Income and Comprehensive Income at December 31, 2001. Included in Other noncurrent liabilities of SJW Corp.'s Balance Sheet is Minority Interest of \$162 at December 31, 2001.

Note 10. Employee Benefit Plans

Pension Plans

San Jose Water Company sponsors noncontributory defined benefit pension plans. Benefits under the plans are based on an employee's years of service and highest consecutive three years of compensation. Company policy is to contribute the net periodic pension cost to the extent it is tax deductible.

San Jose Water Company has a Executive Supplemental Retirement Plan, which is a defined benefit plan under which the company will pay supplemental pension benefits to key executives in addition to the amounts received under the retirement plan. The annual cost of this plan has been included in the determination of the net periodic benefit cost shown below. The plan, which is unfunded, had a projected benefit obligation of \$5,399, \$9,651 and \$2,120 and as of December 31, 2001, 2000 and 1999, respectively, and net periodic pension cost of \$616, \$1,818 and \$290, for 2001, 2000 and 1999, respectively.

Deferral Plan

San Jose Water Company sponsors a salary deferral plan that allows employees to defer and contribute a portion of their earnings to the plan. Contributions, not to exceed set limits, are matched by the company. Company contributions were \$639, \$607 and \$596, in 2001, 2000 and 1999, respectively.

Other Postretirement Benefits

In addition to providing pension and savings benefits, San Jose Water Company provides health care and life insurance benefits for retired employees. The plan is a flat dollar plan which is unaffected by variations in health care costs.

Net periodic cost for the defined benefit plans and other postretirement benefits was:

| | Pension Benefits | | | Other B | |
|---|------------------|---------|---------|---------|-------|
| | 2001 | 2000 | 1999 | 2001 | 2 |
| Weighted-Average | | | | | |
| Assumptions as of Dec. 31 | % | % | % | % | |
| Discount rate | 7.25 | 7.75 | 8.00 | 7.25 | |
| Expected return on plan assets | 8.00 | 8.00 | 8.00 | 8.00 | |
| Rate of compensation increase | 4.00 | 4.00 | 4.00 | n.a. | |
| | ---- | ---- | ---- | ----- | ----- |
| Components of Net Periodic Benefit Cost | | | | | |
| Service cost | \$ 926 | 950 | 1,105 | \$ 40 | |
| Interest cost | 2,421 | 2,591 | 1,966 | 118 | |
| Expected return on assets | (2,940) | (2,834) | (2,584) | (33) | |
| Amortization of transition obligation | 3 | 3 | 3 | 56 | |
| Amortization of prior service cost | 258 | 258 | 219 | 16 | |

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| | | | | | |
|---------------------------------|--------|-------|-------|--------|-------|
| Recognized actuarial gain | (346) | 244 | (188) | (6) | |
| | ----- | ----- | ----- | ----- | ----- |
| Net periodic benefit cost | \$ 322 | 1,212 | 521 | \$ 191 | |
| | ===== | ===== | ===== | ===== | ===== |

29

SJW CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001, 2000, and 1999 --(Continued)
(Dollars in thousands, except share data)

The actuarial present value of benefit obligations and the funded status of San Jose Water Company's defined benefit pension and other postretirement plans as of December 31 were as follows:

| | Pension Benefits | | | |
|---|------------------|---------|----------|---------|
| | 2001 | 2000 | 1999 | 2001 |
| | ----- | ----- | ----- | ----- |
| Change in Benefit Obligation | | | | |
| Benefit obligation at beginning of year | \$ 36,385 | 26,749 | 27,912 | \$ 1,5 |
| Service cost | 926 | 950 | 1,105 | |
| Interest cost | 2,421 | 2,591 | 1,966 | 1 |
| Amendments | 1,275 | - | 629 | |
| Actuarial (gain) loss | (2,019) | 7,943 | (3,553) | 1 |
| Benefits paid | (1,967) | (1,848) | (1,310) | (1 |
| | ----- | ----- | ----- | ----- |
| Benefit obligation at end of year | \$ 37,021 | 36,385 | 26,749 | \$ 1,7 |
| | ===== | ===== | ===== | ===== |
| Change in Plan Assets | | | | |
| Fair value of assets at beginning of year | \$ 37,422 | 36,088 | 32,880 | \$ 4 |
| Actual return on plan assets | (1,766) | 3,016 | 3,378 | |
| Employer contributions | 321 | 166 | 1,140 | |
| Benefits paid | (1,967) | (1,848) | (1,310) | (1 |
| | ----- | ----- | ----- | ----- |
| Fair value of assets at end of year | \$ 34,010 | 37,422 | 36,088 | \$ 3 |
| | ===== | ===== | ===== | ===== |
| Funded Status | | | | |
| Plan assets less benefit obligation | \$ (3,010) | 1,038 | 9,339 | \$ (1,3 |
| Unrecognized transition obligation | 206 | 209 | 212 | 5 |
| Unamortized prior service cost | 3,387 | 2,370 | 2,628 | |
| Unrecognized actuarial gain | (1,045) | (4,078) | (11,595) | (|
| | ----- | ----- | ----- | ----- |
| Prepaid (accrued) benefit cost | \$ (462) | (461) | 584 | \$ (7 |
| | ===== | ===== | ===== | ===== |

Note 11. Merger Termination

On October 28, 1999, SJW Corp. and American Water Works Company, Inc. (American Water) entered into an Agreement and Plan of Merger (Merger Agreement). On March 1, 2001, SJW Corp.'s Board of Directors decided that it

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would be in the best interest of the company to terminate the Merger Agreement, and accepted American Water's offer for mutual termination.

30

SJW CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001, 2000, and 1999 -- (Continued)
(Dollars in thousands, except share data)

Note 12. Unaudited Quarterly Financial Data

Summarized quarterly financial data is as follows:

| | 2001 Quarter ended | | | |
|--------------------------------------|--------------------|--------|-----------|----------|
| | March | June | September | December |
| Operating revenue | \$ 24,245 | 36,364 | 44,182 | 31,29 |
| Operating income | 2,212 | 5,715 | 7,947 | 3,95 |
| Net income | 678 | 4,170 | 6,395 | 2,77 |
| Comprehensive income | 1,716 | 2,255 | 7,272 | 1,62 |
| Basic earnings per share | .22 | 1.37 | 2.10 | 0.91 |
| Comprehensive income per share | 0.56 | 0.74 | 2.39 | 0.53 |
| Market price range of stock: | | | | |
| High | 106.50 | 87.00 | 86.50 | 91.20 |
| Low | 71.90 | 79.00 | 76.50 | 79.08 |
| Dividends per share | .615 | .6525 | .6525 | .65 |

| | 2000 Quarter ended | | | |
|---|--------------------|--------|-----------|---|
| | March | June | September | D |
| Operating revenue | \$ 23,537 | 33,064 | 39,181 | |
| Operating income | 2,818 | 4,256 | 6,384 | |
| Net income | 1,327 | 2,722 | 4,960 | |
| Comprehensive income (loss) | (3,540) | 3,655 | 6,582 | |
| Basic earnings per share | .44 | .89 | 1.63 | |
| Comprehensive income (loss) per share | (1.16) | 1.20 | 2.16 | |
| Market price range of stock: | | | | |
| High | 119.75 | 119.38 | 121.94 | |
| Low | 108.00 | 113.00 | 117.25 | |
| Dividends per share | .615 | .615 | .615 | |

31

SJW CORP.

FINANCIAL STATEMENT SCHEDULE

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Years Ended December 31, 2001, 2000 and 1999

| Description ----- | 2001 ----- | 2000 ----- | 1999 ----- |
|--|---------------|---------------|---------------|
| Allowance for doubtful accounts | | | |
| Balance, beginning of period | \$ 100,000 | 100,000 | 100,000 |
| Charged to expense | 214,243 | 180,480 | 120,145 |
| Accounts written off | (240,096) | (215,570) | (155,022) |
| Recoveries of accounts written off | 25,853 | 35,090 | 34,877 |
| | ----- | ----- | ----- |
| Balance, end of period | \$ 100,000 | 100,000 | 100,000 |
| | ===== | ===== | ===== |
| Reserve for self insurance | | | |
| Balance, beginning of period | \$ 661,247 | 707,025 | 707,100 |
| Charged to expense | 40,000 | 80,000 | 320,000 |
| Payments | (121,549) | (125,778) | (320,075) |
| | ----- | ----- | ----- |
| Balance, end of period | \$ 579,698 | 661,247 | 707,025 |
| | ===== | ===== | ===== |

Item 9. Changes in and Disagreements With Accountants On Accounting and Financial Disclosure

None

PART III

The Company's Proxy Statement for its April 18, 2002 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 and is incorporated by reference in this Form 10-K pursuant to General Instruction G(3) of Form 10-K, provides the information required under Part III (Items 10, 11, 12 and 13), except for the information with respect to the Company's executive officers which is included in "Item 1.c. Narrative Description of Business --Employees--Executive Officers of the Registrant".

32

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports On Form 8-K.

(1) Financial Statements

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| | |
|---|-------|
| | ----- |
| Independent Auditors' Report | 18 |
| Consolidated Balance Sheets as of December 31, 2001 and 2000 | 19 |
| Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2001, 2000, and 1999 | 20 |
| Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2001, 2000, and 1999 | 21 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999 | 22 |
| Notes to Consolidated Financial Statements | 23 |
| (2) Financial Statement Schedule | |
| Schedule | |
| Number II | |
| ----- | |
| Valuation and Qualifying Accounts and Reserves, Years ended December 31, 2001, 2000, and 1999 | 32 |

All other schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

(3) Exhibits required to be filed by Item 601 of Regulation S-K

See Exhibit Index located immediately following paragraph (b) of this Item 14.

The exhibits filed herewith are attached hereto (except as noted) and those indicated on the Exhibit Index which are not filed herewith were previously filed with the Securities and Exchange Commission as indicated.

(b) Report on Form 8-K. There have been no reports filed on Form 8-K during the last quarter of the period covered by this report.

EXHIBIT INDEX

| Exhibit No. --- | Description ----- |
|-----------------------|--|
| 2 | Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession: |
| 2.1 | Stock Exchange Agreement dated as of August 20, 1992 (as amended October 21, 1992). Filed as Appendix A to Proxy Statement/Prospectus dated November 11, 1992. S.E.C. File No. 1-8966. |

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- 2.2 Registration Rights Agreement entered into as of December 31, 1992 among SJW Corp., Roscoe Moss, Jr. and George E. Moss. Filed as Exhibit 4.1 to Form 8-K January 11, 1993. S.E.C. File No. 1-8966.
 - 2.3 Affiliates Agreement entered into as of December 31, 1992 among SJW Corp., Roscoe Moss, Jr. and George E. Moss. Filed as Exhibit 4.2 to Form 8-K January 11, 1993. S.E.C. File No. 1-8966.
 - 2.4 Affiliates Agreement entered into as December 31, 1992 among SJW Corp., Roscoe Moss Company and Roscoe Moss, Jr. Filed as Exhibit 4.3 to Form 8-K January 11, 1993. S.E.C. File No. 1-8966.
 - 2.5 Agreement and Plan of Merger dated as of October 28, 1999 among American Water Works Company, Inc., SJW Acquisition Corporation and SJW Corp. Filed as an Exhibit to 10Q for the period ending September 30, 1999. S.E.C. File No. 1-8966.
 - 3 Articles of Incorporation and By-Laws:
 - 3.1 Restated Articles of Incorporation and By-Laws of SJW Corp., defining the rights of holders of the equity securities of SJW Corp. (1)
 - 3.2 Amendment to the By-Laws of SJW Corp., dated July 19, 2001. (1)
 - 4 Instruments Defining the Rights of Security Holders, including Indentures:
No current issue of the registrant's long-term debt exceeds 10 percent of its total assets. SJW Corp. hereby agrees to furnish upon request to the Commission a copy of each instrument defining the rights of holders of unregistered senior and subordinated debt of the company.
 - 10 Material Contracts:
 - 10.1 Water Supply Contract dated January 27, 1981 between San Jose Water Works and the Santa Clara Valley Water District, as amended. (1)
 - 10.2 Limited Partnership Agreement of 444 West Santa Clara Street, L. P. executed between SJW Land Company and Toeniskoetter & Breeding, Inc. Development. Filed as an Exhibit to 10Q for the period ending September 30, 1999. S.E.C. File No. 1-8966.
- Executive Compensation Plans and Arrangements:
- 10.3 Ninth amendment to San Jose Water Company Retirement Plan as amended. Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996. S.E.C. File No. 1-8966.
 - 10.4 San Jose Water Company Executive Supplemental Retirement Plan adopted by San Jose Water Company Board of Directors. Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992. S.E.C. File No. 1-8966.
 - 10.5 First Amendment to San Jose Water Company Executive Supplemental Retirement Plan adopted by San Jose Water Company Board of Directors. Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992. S.E.C. File No. 1-8966.
 - 10.6 Second Amendment to San Jose Water Company Executive Supplemental Retirement Plan adopted by San Jose Water Company Board of Directors. Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1998. S.E.C. File No. 1-8966.

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| Exhibit No. --- | Description ----- |
|-----------------------|---|
| 10.7 | Third Amendment to San Jose Water Company Executive Supplemental Retirement Plan adopted by San Jose Water Company Board of Directors. Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1998. S.E.C. File No. 1-8966. |
| 10.8 | Fourth Amendment to San Jose Water Company Executive Supplemental Retirement Plan adopted by San Jose Water Company Board of Directors. Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1998. S.E.C. File No. 1-8966. |
| 10.9 | Fifth Amendment to San Jose Water Company Executive Supplemental Retirement Plan adopted by San Jose Water Company Board of Directors. Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1998. S.E.C. File No. 1-8966. |
| 10.10 | SJW Corp. Executive Severance Plan adopted by SJW Corp. Board of Directors. Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1998. S.E.C. File No. 1-8966. |
| 10.11 | Sixth Amendment to San Jose Water Company's Executive Supplemental Retirement Plan. Filed as an Exhibit to 10Q for the period ending September 30, 1999. S.E.C. File No. 1-8966. |
| 10.12 | Amendment to SJW Corp.'s Executive Severance Plan. Filed as an Exhibit to 10Q for the period ending September 30, 1999. S.E.C. File No. 1-8966. |
| 10.13 | SJW Corp.'s Transaction Incentive and Retention Program for Key Employees. Filed as an Exhibit to 10Q for the period ending September 30, 1999. S.E.C. File No. 1-8966. |
| 10.14 | Resolution for Directors' Retirement Plan adopted by SJW Corp. Board of Directors as amended on September 22, 1999. Filed as an Exhibit to 10Q for the period ending September 30, 1999. S.E.C. File No. 1-8966. |
| 10.15 | Resolution for Directors' Retirement Plan adopted by San Jose Water Company's Board of Directors as amended on September 22, 1999. Filed as an Exhibit to 10Q for the period ending September 30, 1999. S.E.C. File No. 1-8966. |
| 10.16 | Resolution for Directors' Retirement Plan adopted by SJW Land Company Board of Directors on September 22, 1999. Filed as an Exhibit to 10Q for the period ending September 30, 1999. S.E.C. File No. 1-8966. |
| 21 | Subsidiaries of the Registrant. Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992. S.E.C. File No. 1-8966. |
| 99 | Additional Exhibits: None. |

(1) Filed concurrently herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 15, 2002

By: /s/ J.W. WEINHARDT

J.W. Weinhardt,
Chairman, Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 15, 2002

By: /s/ J.W. WEINHARDT

J.W. Weinhardt,
Chairman, Board of Directors

Date: March 15, 2002

By: /s/ W. RICHARD ROTH

W. Richard Roth,
President, Chief Executive Officer
and Member, Board of Directors

Date: March 15, 2002

By: /s/ ANGELA YIP

Angela Yip,
Chief Financial Officer

Date: March 15, 2002

By: /s/ EDITH AIWAZ

Edith Aiwaz
Chief Accounting Officer

Date: March 15, 2002

By: /s/ MARK L. CALI

Mark L. Cali,
Member, Board of Directors

Date: March 15, 2002

By: /s/ J. PHILIP DINAPOLI

J. Philip Dinapoli,
Member, Board of Directors

Date: March 15, 2002

By: /s/ DREW GIBSON

Drew Gibson,
Member, Board of Directors

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Date: March 15, 2002

By: /s/ RONALD R. JAMES

Ronald R. James,
Member, Board of Directors

36

Date: March 15, 2002

By: /s/ GEORGE E. MOSS

George E. Moss,
Member, Board of Directors

Date: March 15, 2002

By: /s/ ROSCOE MOSS, JR.

Roscoe Moss, Jr.,
Member, Board of Directors

Date: March 15, 2002

By: /s/ CHARLES J. TOENISKOETTER

Charles J. Toeniskoetter,
Member, Board of Directors

In accordance with the Securities and Exchange Commission's requirements, SJW Corp. will furnish copies of any exhibit upon payment of a 30 cents per page fee.

To order any exhibit(s), please advise the Secretary, SJW Corp., 374 West Santa Clara Street, San Jose, CA 95196, as to the exhibit(s) desired.

On receipt of your request, the Secretary will provide to you the cost of the specific exhibit(s). The Secretary will forward the requested exhibits upon receipt of the required fee.

37