SJW CORP
Form 10-K
March 09, 2009
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UNITED STATES

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, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-8966

SJW CORP.

(Exact name of registrant as specified in its charter)

California	**77-0066628**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
110 West Taylor Street, San Jose,	
California	**95110**
(Address of principal executive offices)	(Zip Code)

408-279-7800

(Registrant s telephone number, including area code)

Not Applicable

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.521 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

As of June 30, 2008, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $402,116,088 based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of registrant s common stock, as of the latest practicable date.

Class	**Outstanding at February 9, 2009**
Common Stock, $0.521 par value per share	18,464,692

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement relating to the registrant s Annual Meeting of Shareholders, to be held on May 6, 2009, are incorporated by reference into Part III of this Form 10-K where indicated.

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PART I

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities laws relating to future events and future results of SJW Corp. and its subsidiaries that are based on current expectations, estimates, forecasts, and projections about SJW Corp. and the industries in which SJW Corp. operates and the beliefs and assumptions of the management of SJW Corp. Such forward-looking statements are identified by words such as expect , estimate , anticipate , intends , seeks , plans , projects , may , should , will , variation of such words, and sim These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Important factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report under Item 1A, Risk Factors, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere, and in other reports SJW Corp. files with the Securities and Exchange Commission (the SEC), specifically the most recent reports on Form 10-Q and Form 8-K filed with the SEC, each as it may be amended from time to time.

SJW Corp. undertakes no obligation to update or revise the information contained in this report, including the forward-looking statements for any reason.

Item 1. *Business*
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 of SJW Corp., with its headquarters located at 110 West Taylor Street in San Jose, California 95110, was originally incorporated under the laws of the State of California in 1866. As part of a reorganization on February 8, 1985, San Jose Water Company became a wholly owned subsidiary of SJW Corp. San Jose Water Company is a public utility in the business of providing water service to approximately 226,000 connections that serve a population of approximately one million people in an area comprising approximately 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 of SJW Corp., was incorporated in 1985. SJW Land Company owns undeveloped land in the states of California and Tennessee, owns and operates commercial buildings in the states of California, Florida, Connecticut, Texas, Arizona and Tennessee, and has a 70% limited partnership interest in 444 West Santa Clara Street, L.P.

SJWTX, Inc., doing business as Canyon Lake Water Service Company (CLWSC), a wholly owned subsidiary of SJW Corp., was incorporated in September 2005. CLWSC provides service to approximately 8,700 connections that serve approximately 36,000 residents in a service area comprising more than 153 square miles in the growing region between San Antonio and Austin, Texas, as of December 31, 2008.

SJW Corp. also owns 1,099,952 shares of California Water Service Group, which represents approximately 5% of that company s outstanding shares as of December 31, 2008 and it is accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, as an available-for-sale marketable security.

On January 31, 2007, the rental equipment and existing inventory of Crystal Choice Water Service LLC, a 75% owned subsidiary engaged in the sale and rental of water conditioning and purification equipment, was sold for $635,000. Crystal Choice Water Service LLC was liquidated in August 2007.

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Together, San Jose Water Company and CLWSC are referred to as Water Utility Services.

Regulation and Rates

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 that affect San Jose Water Company s business: general rate increases and offset rate increases. General rate increases are authorized in case decisions, which 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 as required by the CPUC so that regulatory lag is avoided.

The purpose of an offset rate increase is to compensate utilities for increases in specific pre-authorized offsettable capital investments or expenses, primarily for purchased water, groundwater extraction charges and purchased power.

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

CLWSC is subject to the regulation of the Texas Commission on Environmental Quality (TCEQ). The TCEQ authorizes rate increases after the filing of an Application for a Rate/Tariff Change. Such filings may be filed twelve months following the resolution of the previous filing.

On January 21, 2009, San Jose Water Company filed an application with the CPUC requesting general rate increases of $36,207,000, or 18.44% in 2010, $15,171,000, or 6.52% in 2011, and $19,899,000, or 8.10% in 2012. San Jose Water Company is proposing this rate increase due to escalating operating expenses as well as significant system infrastructure replacement requirements over the next several years. The capital budgets for the years noted above are also increasing due to significantly higher construction costs. The infrastructure improvements such as water main and well replacements, improvements to pumping stations, well fields, water tanks and replacements throughout San Jose Water Company s 138 square mile service area are necessary in order to maintain safe and reliable water service to customers. The application is currently under review by the CPUC and a decision on the request is expected in late 2009, with new rates becoming effective January 1, 2010.

Please also see Item 1A, Risk Factors, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Financial Information about Industry Segments

See Part II, Item 7 for information regarding SJW Corp. s business segments.

Description of Business

General

The principal business of the Water Utility Services consists of the production, purchase, storage, purification, distribution, and retail sale of water. San Jose Water Company provides water service to approximately 226,000 connections that serve 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. CLWSC provides water service to approximately 8,700 connections that serve approximately 36,000 residents in a service area comprising more than 153 square miles in the growing region between San Antonio and Austin, Texas.

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San Jose Water Company also provides nonregulated water related services under agreements with municipalities. These nonregulated services include full water system operations, cash remittances and maintenance contract services.

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 approximately 4,500 service connections. Under the terms of the lease, San Jose Water Company paid an up-front $6.8 million concession fee to the City of Cupertino that is amortized over the contract term. San Jose Water Company is responsible for all aspects of system operation including capital improvements.

The operating results from the water business fluctuate according to the demand for water, which is often influenced by seasonal conditions, such as summer temperatures or the amount and timing of precipitation in the Water Utility Services service areas. Revenue, production costs and income are affected by the changes in water sales and availability of surface water supply. Overhead costs, such as payroll and benefits, depreciation, interest on long-term debt, and property taxes, remain fairly constant despite variations in the amount of water sold. As a result, earnings are highest in the higher use, warm weather summer months and lowest in the cool winter months.

Water Supply

San Jose Water Company s water supply consists of groundwater from wells, surface water from watershed run-off and diversion, and imported water purchased from the Santa Clara Valley Water District (SCVWD) under the terms of a master contract with SCVWD expiring in 2051. Purchased water provides approximately 40% to 45% of San Jose Water Company s annual production. Surface supply, which during a year of normal rainfall satisfies about 6% to 8% of San Jose Water Company s annual needs, provides 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. San Jose Water Company pumps the remaining 40% to 50% of its water supply from the underground basin and pays a groundwater extraction charge to SCVWD.

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 18 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. SCVWD has informed San Jose Water Company that its filter plants, which deliver purchased 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 by pumping water with its standby generators and by using the purchased water from SCVWD.

In 2008, the level of water in the Santa Clara Valley groundwater basin, which is the responsibility of SCVWD, remained comparable to the 30-year average level. On December 29, 2008, SCVWD s 10 reservoirs were 45.4% full with 76,671 acre-feet of water in storage. The rainfall from July 1, 2008 to December 29, 2008 was about 66% of the 30-year average. In addition, the rainfall at San Jose Water Company s Lake Elsman was measured at 12.77 inches for the period from July 1, 2008 through January 28, 2009, which is 49% of the five-year average. The delivery of California and federal contract water to SCVWD may be reduced, resulting in target deliveries to retail agencies being rolled back to 90% of contract amounts. SCVWD has also stated that there will not be any physical restriction as it is SCVWD s expectation that San Jose Water Company will be able to manage its various sources of water supply to stay within the 90% of contract amounts. San Jose Water Company believes that its various sources of water supply, including an increased reliance on groundwater, are sufficient to meet customer demand for the remainder of 2009.

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The continuing dry weather in California and concerns about the San Joaquin-Sacramento River Delta prompted Governor Schwarzenegger on June 3, 2008 to issue an Executive Order (S-06-08) declaring a state-wide water emergency. The order directed state agencies to take immediate action to address drought conditions and water delivery reductions that may exist by expediting grant programs, technical assistance, and water conservation outreach. The order did not mandate water use restrictions or reductions.

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

The SCVWD announced that at their March 24, 2009 meeting, they will determine whether to recommend mandatory conservation. To effect mandatory water restrictions, SCVWD must work with other political subdivisions that possess the authority to enact and enforce drought ordinances in order to effect such restrictions. Additionally, water systems subject to the jurisdiction of the CPUC must receive approval from the CPUC for changes in tariffs and other matters related to the implementation of water restrictions. During the interim, SCVWD is continuing to ask the public to voluntarily reduce water usage by 10%.

Except for 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 has not had any interrupted or imposed mandatory curtailment of service to any type or class of customer with the exception of the summer of 1989 through March 1993, when rationing was imposed intermittently on customers at the request of SCVWD.

California faces long-term water supply challenges. San Jose Water Company actively works with SCVWD to meet the challenges by continuing to educate customers on responsible water use practices and to conduct long-range water supply planning.

CLWSC s water supply consists of groundwater from wells and purchased raw water from the Guadalupe-Blanco River Authority (GBRA). CLWSC has long-term agreements with GBRA, which expire in 2044 and 2050. The agreements provide CLWSC with 6,000 acre-feet of water per year from Canyon Lake at prices to be adjusted periodically by GBRA.

Please also see further discussion under Item 1A, Risk Factors and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Franchises

Franchises granted by local jurisdictions permit the Water Utility Services to construct, maintain, and operate a water distribution system within the streets and other public properties of a given jurisdiction. San Jose Water Company holds the necessary franchises to provide water in portions of the cities of San Jose and Cupertino and in the cities of Campbell, Monte Sereno and Saratoga, the town of Los Gatos and the unincorporated areas of Santa Clara County. None of the franchises have a termination date, other than the franchise for the unincorporated areas of Santa Clara County, which terminates in 2020.

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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

San Jose Water Company and CLWSC are public utilities regulated by CPUC and TCEQ, respectively, and operate within a service area approved by the regulators. The statutory laws provide that no other investor-owned public utility may operate in the public utilities service areas without first obtaining from the regulator a certificate of public convenience and necessity. Past experience shows such a certificate will be issued only after demonstrating that 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 statutory constitution, 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 its water systems.

Environmental Matters

The Water Utility Services procedures produce potable water in accordance with all applicable county, state and federal environmental rules and regulations. Additionally, public utilities are subject to environmental regulation by various other state and local governmental authorities.

The Water Utility Services are currently in compliance with all of the United States Environmental Protection Agency s (the EPA) surface water treatment performance standards, drinking water standards for disinfection by-products and primary maximum contaminant levels. These standards have been adopted and are enforced by the California Department of Public Health (CDPH) and the TCEQ for San Jose Water Company and CLWSC, respectively.

Other state and local environmental regulations apply to the Water Utility Services operations and facilities. These regulations relate primarily to the handling, storage and disposal of hazardous materials and discharges to waterways. As part of routine replacement of infrastructure, San Jose Water Company identified legacy equipment containing mercury which had leaked into the surrounding soil. San Jose Water Company has determined there is no risk of contamination to the water supply, has notified the appropriate authorities and is also working with an environmental consulting firm to remediate the effected area and assess other potential sites. SJW Corp. believes there will be no material financial impact.

San Jose Water Company is currently in compliance with all 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. Please also see Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Employees

As of December 31, 2008, SJW Corp. had 379 employees, of whom 342 were San Jose Water Company employees and 37 were CLWSC employees. At San Jose Water Company, 101 were executive, administrative or supervisory personnel, and 241 were members of unions. On February 7, 2008, San Jose Water Company

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reached a two-year collective bargaining agreement with the Utility Workers of America, representing the majority of all employees, and the International Union of Operating Engineers, representing certain employees in the engineering department, covering the period from January 1, 2008 through December 31, 2009. Both groups are affiliated with the AFL-CIO. The agreements include a wage adjustment of approximately 3.3% for union workers for the calendar year 2009 and minor benefit modifications. As of December 31, 2008, CLWSC had 37 employees, of whom 10 were exempt and 27 were non-exempt employees. Non-exempt employees are subject to overtime but are not union represented.

Officers of the Registrant

Name	Age	Offices and Experience
G.J. Belhumeur	63	San Jose Water Company Senior Vice President, Operations. Mr. Belhumeur has served as Senior Vice President of Operations since 2004. From 1996 to 2003, Mr. Belhumeur was Vice President of Operations. Mr. Belhumeur has been with San Jose Water Company since 1970.
D. Drysdale	53	San Jose Water Company Vice President, Information Systems. Mr. Drysdale has served as Vice President of Information Systems since 2000. From 1998 to 1999, Mr. Drysdale was Director of Information Systems. From 1994 to 1998, Mr. Drysdale was Data Processing Manager. Mr. Drysdale joined San Jose Water Company in 1992.
D.A. Green	46	SJW Corp. and San Jose Water Company Chief Financial Officer and Treasurer. Mr. Green has served as Chief Financial Officer and Treasurer since August 11, 2008. He is also Chief Financial Officer and Treasurer of SJW Land Company and SJWTX, Inc. Prior to his employment with SJW Corp., Mr. Green served as the Chief Financial Officer, Treasurer and Vice President for Specialized Health Products International, Inc. and Managing Director of Investment Banking for Duff & Phelps.
C.S. Giordano	52	San Jose Water Company Officer, Chief Engineer. Mr Giordano has served as Chief Engineer since January 2008. From June 2007 to January 2008, Mr. Giordano was Chief Engineer. From August 2000 to June 2007, Mr. Giordano was Director of Engineering and Construction. From January 1994 to August 2000, Mr. Giordano was Assistant Chief Engineer. Mr. Giordano has been with San Jose Water Company since 1994.
P. L. Jensen	49	San Jose Water Company Vice President, Regulatory Affairs. Mr. Jensen has served as Vice President of Regulatory Affairs since July 2007. From 1995 to July 2007, Mr. Jensen was Director of Regulatory Affairs. Mr. Jensen has been with San Jose Water Company since 1995.
S. Papazian	33	SJW Corp. and San Jose Water Company Corporate Secretary and Attorney. Ms. Papazian has served as Corporate Secretary and Attorney since February 14, 2005. She is also Corporate Secretary of SJW Land Company and SJWTX, Inc. She was admitted to the California State Bar in January 2000 and thereafter was an Associate Attorney at The Corporate Law Group from March 2000 until February 2005.
B. J. Schmidt	60	San Jose Water Company Controller. Ms. Schmidt has served as Controller since October 22, 2008. Previously Ms. Schmidt was a financial consultant since 2007. From 2001 to 2006, Ms. Schmidt was Vice President of Finance and Controller for Siemens Medical Solutions USA Inc., Ultrasound Division. Ms. Schmidt is a certified public accountant.

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Name	Age	Offices and Experience
W.R. Roth	56	SJW Corp. President and Chief Executive Officer of SJW Corp., San Jose Water Company, SJW Land Company, and SJWTX, Inc. Mr. Roth was appointed Chief Executive Officer of SJW Corp. in 1999 and President in 1996. Mr. Roth has been with San Jose Water Company since 1990.
A. Yip	55	SJW Corp. and San Jose Water Company Executive Vice President of Finance. Ms. Yip has served as Executive Vice President of Finance since August 2008. From October 1996 to August 2008, Ms. Yip served as Chief Financial Officer and Treasurer of SJW Corp., and Senior Vice President of Finance, Chief Financial Officer and Treasurer of San Jose Water Company since April 2004. From January 1999 to April 2004, Ms. Yip served as Vice President of Finance, Chief Financial Officer and Treasurer of San Jose Water Company. She is also Executive Vice President, Finance of SJWTX, Inc. and SJW Land Company. Ms. Yip has been with San Jose Water Company since 1986. Ms. Yip is a certified public accountant.
R.S. Yoo	58	San Jose Water Company Chief Operating Officer. Mr. Yoo has served as Chief Operating Officer since July 2005. From April 2003 to July 2005, Mr. Yoo was Senior Vice President of Administration. From April 1996 to April 2003, Mr. Yoo was Vice President of Water Quality. Mr. Yoo has served as President of Crystal Choice Water Service LLC from January 2001 to August 2005 and Manager from January 2001 to January 2007. Mr. Yoo was appointed Vice President of SJWTX, Inc. from September 2005 to April 2008. Mr. Yoo has been with San Jose Water Company since 1985.

Financial Information about Foreign and Domestic Operations and Export Sales

SJW Corp. s revenue and expense are derived substantially from Water Utility Services operations located in the County of Santa Clara in the State of California and Comal County in the State of Texas.

Website Access to Reports

SJW Corp. s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, are made available free of charge through SJW Corp. s website at *http://www.sjwater.com*, as soon as reasonably practicable, after SJW Corp. electronically files such material with, or furnish such material to, the SEC. The content of SJW Corp. s website is not intended to be incorporated by reference or part of this report.

Item 1A. ***Risk Factors***

Investors should carefully consider the following risk factors and warnings before making an investment decision. The risks described below are not the only ones facing SJW Corp. Additional risks that SJW Corp. does not yet know of or that it currently thinks are immaterial may also impair its business operations. If any of the following risks actually occur, SJW Corp. s business, operating results or financial condition could be materially harmed. In such case, the trading price of SJW Corp. s common stock could decline and you may lose all or part of your investment. Investors should also refer to the other information set forth in this Form 10-K, including the financial statements and the notes thereto.

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The business of SJW Corp. and its subsidiaries may be adversely affected by new and changing legislation, policies and regulations.

New legislation and changes in existing legislation by federal, state and local governments and administrative agencies can affect the operations of SJW Corp. and its subsidiaries. The operating revenue of San Jose Water Company results from the sale of water at rates authorized by CPUC. The operating revenue of CLWSC results from the sale of water at rates authorized by TCEQ. The CPUC and TCEQ set rates that are intended to provide revenues sufficient to recover operating expenses and produce a reasonable return on common equity.

On November 11, 2006, CPUC issued its final decision in San Jose Water Company s 2006 General Rate Case proceeding. The decision authorized San Jose Water Company rate increases of approximately $3,500,000, or 2.0%, for 2007, $5,400,000, or 3.0%, for 2008, and $4,000,000, or 2.2%, for 2009. The rate increases for 2008 and 2009 are subject to adjustments based upon the inflation escalation factors realized at the time of the increase. The decision also authorizes additional rate recoveries to be phased in as capital projects are completed over the three-year period and the recovery of approximately $450,000 from San Jose Water Company s balancing and memorandum accounts. These rate increases are designed to produce a return on common equity of 10.13%, which is comparable with recent authorized returns for water utilities in California.

On November 17, 2008, CLWSC filed a request for a general rate increase for Canyon Lake with the TCEQ. The filing contains a request for an increase in revenue of approximately $775,000, or about 14%. The rates became effective subject to refund on January 16, 2009. A final resolution is expected from the TCEQ in the summer of 2009.

On November 19, 2008, San Jose Water Company implemented an increasing block rate structure for residential customers as required by CPUC D.08-08-030. This change is not a revenue increase, but rather it is a change in rate design that is applicable to all residential customers. All other customer classes remain on the original uniform rate structure.

Although the Water Utility Services believe that the rates currently in effect provide it with a reasonable rate of return, there is no guarantee such rates will be sufficient to provide a reasonable rate of return in the future. There is no guarantee that the Water Utility Service s future rate filings will be able to obtain a satisfactory rate of return in a timely manner.

In addition, the Water Utility Services rely on policies and regulations promulgated by the regulators in order to recover capital expenditures, maintain favorable treatment on gains from the sale of real property, offset its production and operating costs, recover the cost of debt, maintain an optimal equity structure without over-leveraging, and have financial and operational flexibility to engage in nonregulated operations. If the regulators implement policies and regulations that will not allow San Jose Water Company and CLWSC to accomplish some or all of the items listed above, the Water Utility Services future operating results may be adversely affected.

Recovery of regulatory assets is subject to adjustment by the regulatory agency and could impact the operating results of the Water Utility Services.

Generally-accepted accounting principles for water utilities include the recognition of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. In accordance with SFAS No. 71, the Water Utility Services record deferred costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recovered in the ratemaking process in a period different from when the costs and credits were incurred. If the assessment of the probability of recovery in the ratemaking process is incorrect, the regulatory assets or liabilities would need to be adjusted, which could have an adverse effect on our financial results.

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Changes in water supply, water supply costs or the mix of water supply could adversely affect the operating results and business of the Water Utility Services.

San Jose Water Company s supply of water primarily relies upon three main sources: water purchased from SCVWD, surface water from its Santa Cruz Mountains Watershed, and pumped underground water. Changes and variations in quantities from each of these three sources affect the overall mix of the water supply, thereby affecting the cost of the water supply. Surface water is the least costly source of water. If there is an adverse change to the mix of water supply and San Jose Water Company is not allowed by the CPUC to recover the additional or increased water supply costs, its operating results may be adversely affected.

SCVWD receives an allotment of water from state and federal water projects. If San Jose Water Company has difficulties obtaining a high quality water supply from SCVWD due to availability, environmental or legal restrictions (see also Part I, Item 1, Water Supply), it may not be able to fully satisfy customer demand in its service area and its operating results and business may be adversely affected. Additionally, the availability of water from San Jose Water Company s Santa Cruz Mountains Watershed depends on the weather and fluctuates with each season. In a normal year, surface water supply provides 6% to 8% of the total water supply of the system. In a season with little rainfall, water supply from surface water sources may be low, thereby causing San Jose Water Company to increase the amount of water purchased from outside sources at a higher cost than surface water, thus increasing water production costs.

In addition, San Jose Water Company s ability to use surface water is subject to regulations regarding water quality and volume limitations. If new regulations are imposed or existing regulations are changed or given new interpretations, the availability of surface water may be materially reduced. A reduction in surface water could result in the need to procure more costly water from other sources, thereby increasing the water production costs and adversely affecting the operating results of San Jose Water Company.

Because the extraction of water from the groundwater basin and the operation of the water distribution system require a significant amount of energy, increases in energy prices could increase operating expenses of San Jose Water Company. In the aftermath of the attempt to deregulate the California energy market, energy costs still remain in flux, with resulting uncertainty in San Jose Water Company s ability to contain energy costs into the future.

San Jose Water Company continues to utilize Pacific Gas & Electric s time of use rate schedules to minimize its overall energy costs primarily for groundwater pumping. During the winter months, typically 90% or more of the groundwater is produced during off-peak hours when electrical energy is consumed at the lowest rates. Optimization and energy management efficiency is achieved through the implementation of Supervisory Control and Data Acquisition system software applications that control pumps based on demand and cost of energy. An increase in demand or a reduction in the availability of surface water or import water could result in the need to pump more water during peak hours adversely affecting the operating results of San Jose Water Company.

CLWSC s primary water supply is 6,000 acre-feet of water which is pumped from Canyon Lake at two lake intakes, in accordance with the terms of its contracts with the GBRA, which are long-term take-or-pay contracts. This supply is supplemented by groundwater pumped from wells. Texas, similar to California, faces similar operating challenges as described above and long-term water supply constraints. (See also Part I, Item 1, Water Supply.)

Fluctuations in customer demand for water due to seasonality, restrictions of use, weather, and lifestyle can adversely affect operating results.

The Water Utility Services operations are seasonal. Thus, results of operations for one quarter do not indicate results to be expected in subsequent quarters. Rainfall and other weather conditions also affect the operations of the Water Utility Services. Most water consumption occurs during the third quarter of each year when weather tends to be warm and dry. In drought seasons, if customers are encouraged and required to conserve water due to a shortage of water supply or restriction of use, revenue tends to be lower. Similarly, in unusually wet seasons, water supply tends to be higher and customer demand tends to be lower, again resulting in lower revenues. Furthermore, certain lifestyle choices made by customers can affect demand for water. For example, a significant portion of residential water use is for outside irrigation of lawns and landscaping. If there is a decreased desire by customers to maintain landscaping for their homes, residential water demand could decrease, which may result in lower revenues. Conservation efforts and construction codes, which require the use of low-flow plumbing fixtures, could diminish water consumption and result in reduced revenue.

A contamination event or other decline in source water quality could affect the water supply of the Water Utility Services and therefore adversely affect the business and operating results.

The Water Utility Services are required under environmental regulations to comply with water quality requirements. Through water quality compliance programs, the Water Utility Services continually monitor for contamination and pollution of its sources of water. In addition, a Watershed Management Program provides a proactive approach to minimize potential contamination activities. There can be no assurance that we will continue to comply with all applicable water quality requirements. In the event a contamination is detected, the Water Utility Services will either have to commence treatment to remove the contaminant or procure water from an alternative source. Either of these results may be costly, may increase future capital expenditures and there can be no assurance that the regulators would approve a rate increase to enable us to recover the costs arising from these remedies.

The Water Utility Services are subject to litigation risks concerning water quality and contamination.

Although the Water Utility Services have not been and are not a party to any environmental and product-related lawsuits, such lawsuits against other water utilities have increased in frequency in recent years. If the Water Utility Services are subject to an environmental or product-related lawsuit, they might incur significant legal costs and it is uncertain whether they would be able to recover the legal costs from ratepayers or other third parties. Although the Water Utility Services have product liability insurance coverage for bodily injury and property damage, pollution is excluded from this coverage. In additions, our pollution liability policy does not extend coverage for product liability.

New or more stringent environmental regulations could increase the Water Utility Services operating costs and affect its business.

The Water Utility Services operations are subject to water quality and pollution control regulations issued by the EPA and environmental laws and regulations administered by the respective states and local regulatory agencies.

Stringent environmental and water quality regulations could increase the Water Utility Services water quality compliance costs, hamper the Water Utility Services available water supplies, and increase future capital expenditure.

Under the federal Safe Drinking Water Act, the Water Utility Services are 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 standards, including maximum contaminant levels for drinking water. The Water Utility Services are currently in compliance with all of the 87 primary maximum contaminant levels promulgated to date. Additional or more stringent requirements may be adopted by each state. There can be no assurance that the Water Utility Services will be able to continue to comply with all water quality requirements.

The Water Utility Services have implemented monitoring activities and installed specific water treatment improvements enabling it to comply with existing maximum contaminant levels and plan for compliance with future drinking water regulations. However, the EPA and the respective state agencies have continuing authority

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to issue additional regulations under the Safe Drinking Water Act. It is possible that new or more stringent environmental standards could be imposed that will raise the Water Utility Services operating costs. 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 further reduce levels of disinfection by-products. The Water Utility Services continues to seek mechanisms for recovery of government-mandated environmental compliance costs. There are currently 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.

Costs associated with security precautions may have an adverse effect on the operating results of the Water Utility Services.

Water utility companies have generally been on a heightened state of alert since the threats to the nation s health and security in September of 2001. San Jose Water Company has taken steps to increase security at its water utility facilities and continues to implement a comprehensive security upgrade program for production and storage facilities, pump stations and company buildings. San Jose Water Company also coordinates security and planning information with SCVWD, other Bay Area water utilities and various governmental and law enforcement agencies.

San Jose Water Company conducted a system-wide vulnerability assessment in compliance with federal regulations Public Law 107-188 imposed on all water utilities. The assessment report was filed with the EPA on March 31, 2003. San Jose Water Company has also actively participated in the security vulnerability assessment training offered by the American Water Works Association Research Foundation and the EPA.

The vulnerability assessment identified system security enhancements that impact water quality, health, safety, and continuity of service totaling approximately $2,300,000. These improvements were incorporated into the capital budgets and were completed as of December 31, 2006. San Jose Water Company has and will continue to bear costs associated with additional security precautions to protect its water utility business and other operations. While some of these costs are likely to be recovered in the form of higher rates, there can be no assurance that CPUC will approve a rate increase to recover all or part of such costs and, as a result, the company s operating results and business may be adversely affected.

CLWSC evaluated its security measures and has completed and implemented a new risk management plan. As a result, CLWSC replaced all building and chemical vessel locks, installed new fences at the Park Shores Water Treatment Plant and several wells, repaired fences at other well sites, improved exterior lighting at the water treatments plants and installed new network firewalls for its computer systems.

The Water Utility Services rely on information technology and systems that are key to business operations, therefore a disruption in service could adversely effect business operations.

Information technology is key to the operation of the Water Utility Services, including but not limited to bill remittance processing, providing customer service and the use of Supervisory Control and Data Acquisition systems to operate the distribution system. A disruption of a business system that supports any of these functions could significantly impact our ability to provide services to our customers.

SJW Land Company s significant increase in its real estate portfolio.

SJW Land Company owns a diversified real estate portfolio in multiple states. The risks in investing directly in real estate vary depending on the investment strategy and investment objective.

Liquidity risk real estate investment is illiquid. The lag time to build or reduce its portfolio is long.

Obsolescence risk real estate property is location specific. Location obsolescence can occur due to a decline of a particular sub-market or neighborhood. Functional obsolescence can also occur from physical depreciation, wear and tear, and other architectural and physical features which could be curable or incurable.

Market and general economic risks real estate investment is tied to overall domestic economic growth and, therefore, carries market risk which cannot be eliminated by diversification. Generally, all property types benefit from national economic growth, though the benefits range according to local factors, such as local supply and demand and job creation. Because real estate leases are typically staggered and last for multiple years, there is generally a lag effect in the performance of real estate in relation to the overall economy. This lag effect can insulate or deteriorate the financial impact to SJW Land Company in a downturn or an improved economic environment.

Vacancy rates can climb and market rents can be impacted and weakened by general economic forces, therefore affecting income to SJW Land Company.

The value of real estate can drop materially due to a deflationary market, decline in rental income, market cycle of supply and demand, long lag time in real estate development, legislative and governmental actions, environmental concerns, and fluctuation of interest rates, eroding any unrealized capital appreciation and, potentially, invested capital.

Credit risk the risk of a tenant declaring bankruptcy and seeking relief from its contractual rental obligation could affect the income and the financial results of SJW Land Company. Diversification of many tenants across many properties may mitigate the risk, but can never eliminate it. This risk is most prevalent in a recessionary environment.

In the first quarter of 2009, SJW Land Company was informed that one of its tenants filed a Chapter 11 bankruptcy and intends to liquidate its operations through the United States Bankruptcy Court in Delaware. Such tenant currently leases a 148,000 square foot office building and a 346,000 square foot distribution building from SJW Land Company in Knoxville, Tennessee under triple net leases which have been paid through February 2009. Pursuant to applicable bankruptcy laws and bankruptcy court rules, the tenant will have a limited period of time to decide whether it will terminate its office and distribution leases or sell its rights under the leases. In the event that the leases are terminated, SJW Land Company will incur all holding costs and will seek to re-lease the premises. However, there will be no assurance that SJW Land Company will be able to secure a new tenant; or if it is able to secure a new tenant, when this will occur or whether the leases will be under similar terms.

The success of SJW Land Company s real estate investment strategy depends largely on ongoing local, state and federal land use development activities and regulations, future economic conditions, the development and fluctuations in the sale of the undeveloped properties, the ability to identify the developer/potential buyer of the available for-sale real estate, the timing of the transaction, favorable tax law, the ability to identify and acquire high quality, relatively low risk replacement property at reasonable terms and conditions, and the ability to maintain and manage the replacement property.

Potential impact of the economy on operations.

SJW Corp. s financial performance could be impacted by the recent turmoil in the United States credit markets and recessionary economic environment. The United States credit markets began to tighten significantly in late 2007 and continued that trend through 2008. The tightening of the credit markets eventually led to a complete freeze in lending in 2008. Since SJW Corp. is dependent upon debt financing to supplement its cash flow from operations to fund its capital investment program, a freeze in lending could impair SJW Corp. s capital spending plans, which could impact our ability to grow our utility asset base and earnings.

In addition to the constraints resulting from a challenging credit market, the United States economy entered a recession in late 2007. The recession can be largely attributable to a steep decline in consumer spending which has been driven largely by declining real estate values together with the general lack of consumer credit availability. The decline in consumer spending has led to substantial lay-offs, with approximately 2 million jobs shed from United States companies. Due to this weak economic scenario and high unemployment rates, SJW Corp. may experience a decline in usage, which could negatively impact our revenue growth expectations. Further, due to the large fixed cost structure of our business, a decline in revenue could negatively impact expected earnings.

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Other factors that could affect operating results.

Other factors that could adversely affect the operating results of SJW Corp. and its subsidiaries include the following:

- SJW Corp. s growth strategy depends on its ability to acquire water systems in order to broaden its service areas, SJW Land Company s ability to continue to develop and invest in real estate investments at favorable terms, and San Jose Water Company s ability to continue to broaden and expand its nonregulated contract services in the metropolitan San Jose area. The execution of SJW Corp. s growth strategy will expose it to different risks than those associated with the current utility operations. Costs are incurred in connection with the execution of the growth strategy and risks are involved in potential integration of acquired businesses/properties which could require significant costs and cause diversion of management s time and resources. Any future acquisition SJW Corp. decides to undertake may involve risks and have a material adverse effect on SJW Corp. s core business, impact SJW Corp. s ability to finance its business and affect its compliance with regulatory requirements. Any businesses SJW Corp. acquires may not achieve sales, customer growth and projected profitability that would justify the investment. Any difficulties SJW Corp. encounters in the integration process, including the integration of controls necessary for internal control and financial reporting, could interfere with its operations, reduce its operating margins and adversely affect its internal controls.

- 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.

- The City of Cupertino lease operation could be adversely affected by: (1) the level of capital requirements, (2) the ability of San Jose Water Company to raise rates through the Cupertino City Council, and (3) the level of operating and maintenance expenses.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

The properties of San Jose Water Company consist of a unified water production system 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 236 million gallons, and all water facilities, equipment, office buildings 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 practice for a water utility. San Jose Water Company s groundwater pumping stations have a production capacity of approximately 238 million gallons per day and the present capacity for taking purchased water is approximately 172 million gallons per day. The surface water collection system has a physical delivery capacity of approximately 35 million gallons per day. During 2008, a maximum and average of 191 million gallons and 134 million gallons of water per day, respectively, were delivered to the system.

The Water Utility Services hold all its principal properties in fee, subject to current tax and assessment liens, rights-of-way, easements, and certain minor defects in title which do not materially affect their use.

SJW Land Company owns approximately 92 acres of property in the states of Connecticut, Florida, Texas, Arizona and Tennessee and approximately five undeveloped acres of land and two acres of land with commercial properties primarily in the San Jose metropolitan area. In February 2007, SJW Land Company purchased a warehouse building, commercial building and undeveloped land in the State of Tennessee. SJW Land Company

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also owns a 70% limited partnership interest in 444 West Santa Clara Street, L.P., a real estate limited partnership that owns and operates an office building. SJW Land Company consolidates its limited partnership interest in 444 West Santa Clara Street, L.P. as a variable interest entity under Financial Accounting Standards Board Interpretation No. 46R (FIN46R), Consolidation of Variable Interest Entities. The following table is a summary of SJW Land Company properties described above:

Description	Location	Acreage	Square Footage	Percentage of SJW Land Company Revenue
2 Commercial buildings	San Jose, California	2	28,000	13%
Warehouse building	Windsor, Connecticut	17	170,000	11%
Warehouse building	Orlando, Florida	8	147,000	7%
Retail building	El Paso, Texas	2	14,000	5%
Warehouse building	Phoenix, Arizona	11	176,000	13%
Warehouse building	Knoxville, Tennessee	29	346,000	23%
Commercial building	Knoxville, Tennessee	15	148,000	28%
Undeveloped land	Knoxville, Tennessee	10	N/A	N/A
Undeveloped land	San Jose, California	5	N/A	N/A

Item 3. ***Legal Proceedings***

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

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

None.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

SJW Corp. s common stock is traded on the New York Stock Exchange under the symbol SJW. Information as to the high and low sales prices for SJW Corp. s common stock for each quarter in the 2008 and 2007 fiscal years is contained in the section captioned Market price range of stock in the tables set forth in Note 16 of Notes to Consolidated Financial Statements in Part II, Item 8.

As of December 31, 2008, there were 531 record holders of SJW Corp. s common stock.

Dividends

Dividends have been paid on SJW Corp. s and its predecessor s common stock for 261 consecutive quarters and the annual dividend amount has increased in each of the last 41 years. Additional information as to the cash dividends paid on common stock in 2008 and 2007 is contained in the section captioned Dividend per share in the tables set forth in Note 16 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.

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Five-Year Performance Graph

The following performance graph compares the changes in the cumulative shareholder return on SJW Corp. s common stock with the cumulative total return on the Water Utility Index and the Standard & Poor s 500 Index during the last five years ended December 31, 2008. The comparison assumes $100 was invested on December 31, 2003 in SJW Corp. s common stock and in each of the foregoing indices and assumes reinvestment of dividends.

The following descriptive data is supplied in accordance with Rule 304(d) of Regulation S-T:

	2003	2004	2005	2006	2007	2008
SJW Corp.	100	126	162	282	256	226
Water Utility Index	100	114	145	144	135	124
S&P 500 Index	100	111	116	135	142	90

The Water Utility Index is the 11 water company Water Utility Index prepared by Wachovia.

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Item 6. ***Selected Financial Data***

FIVE YEAR STATISTICAL REVIEW

SJW Corp. and Subsidiaries

		2008	2007	2006	2005	2004
CONSOLIDATED RESULTS OF OPERATIONS (in thousands)						
Operating revenue	$	220,347	206,601	189,238	180,105	166,911
Operating expense:						
Purchased water		48,291	48,596	44,896	44,953	41,220
Power		7,559	7,532	5,170	4,318	5,511
Groundwater extraction charges		34,368	30,141	18,737	17,362	21,773
Administrative and general		23,688	22,334	21,108	20,697	17,285
Other		16,390	14,907	15,095	14,183	12,892
Maintenance		13,123	11,628	10,189	9,475	8,674
Property taxes and other nonincome taxes		6,793	6,307	5,893	5,673	5,314
Depreciation and amortization		24,043	22,854	21,299	19,654	18,481
Income taxes		13,198	12,549	15,298	14,773	11,644
Total operating expense		187,453	176,848	157,685	151,088	142,794
Operating income		32,894	29,753	31,553	29,017	24,117
Interest expense, other income and deductions		(11,433)	(10,430)	7,028	(7,177)	(4,331)
Net income		21,461	19,323	38,581	21,840	19,786
Dividends paid		11,875	11,089	10,549	9,777	9,319
Invested in the business	$	9,586	8,234	28,032	12,063	10,467
CONSOLIDATED PER SHARE DATA (BASIC)						
Net income	$	1.17	1.05	2.11	1.20	1.08
Dividends paid	$	0.65	0.60	0.57	0.53	0.51
Shareholders equity at year-end	$	13.81	12.92	12.48	10.73	10.11
CONSOLIDATED BALANCE SHEET (in thousands)						
Utility plant and intangible assets	$	878,743	816,310	740,419	664,117	619,590
Less accumulated depreciation and amortization		272,562	255,025	234,173	208,909	189,221
Net utility plant		606,181	561,285	506,246	455,208	430,369
Real estate investment		88,000	84,195	40,565	34,850	31,987
Total assets		850,877	767,326	705,864	587,709	552,152
Capitalization:						
Shareholders equity		254,326	236,934	228,182	195,908	184,691
Long-term debt		216,613	216,312	163,648	145,279	143,604
Total capitalization	$	470,939	453,246	391,830	341,187	328,295
OTHER STATISTICS WATER UTILITY SERVICES						
Customers at year-end		234,300	233,300	231,700	222,400	220,800
Average revenue per customer	$	914.46	860.23	809.56	792.08	733.76
Investment in utility plant per customer	$	3,751	3,499	3,196	2,986	2,806

Miles of main at year-end	2,814	2,743	2,739	2,447	2,434
Water production (million gallons)	51,961	51,922	49,302	48,198	51,082
Maximum daily production (million gallons)	204	205	229	201	192
Population served (estimate)	1,056,100	1,051,600	1,044,400	1,002,400	995,000

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

Description of Business

SJW Corp. is a publicly traded company and 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 approximately 226,000 connections that serve a population of approximately one million people in an area comprising approximately 138 square miles in the metropolitan San Jose, California area. The United States water utility industry is largely fragmented and is dominated by municipal-owned water systems. The water industry is regulated, and provides a life-sustaining product. This makes water utilities subject to lower business cycle risks than nonregulated industries.

SJW Land Company, a wholly owned subsidiary, owns undeveloped land in the states of California and Tennessee, owns and operates commercial buildings in the states of California, Florida, Connecticut, Texas, Arizona and Tennessee and has a 70% limited partnership interest in 444 West Santa Clara Street, L.P.

SJWTX, Inc., doing business as Canyon Lake Water Service Company, a wholly owned subsidiary, was incorporated in September 2005. CLWSC provides service to approximately 8,700 connections that serve approximately 36,000 residents in a service area comprising more than 153 square miles in the growing region between San Antonio and Austin, Texas, as of December 31, 2008.

SJW Corp. also owns 1,099,952 shares or approximately 5% of California Water Service Group as of December 31, 2008.

On January 31, 2007, the rental equipment and existing inventory of Crystal Choice Water Service LLC, a 75% owned subsidiary engaged in the sale and rental of water conditioning and purification equipment, was sold for $635,000. Crystal Choice Water Service LLC was liquidated in August 2007.

Business Strategy

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

(1) Regional regulated water utility operations.

(2) Regional nonregulated water utility related services provided in accordance with the guidelines established by the CPUC.

(3) Real estate investment activities in SJW Land Company.

(4) Out-of-region water and utility related services, primarily in the Western United States.

Regional Regulated Activities

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

Regional Nonregulated Activities

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

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

Real Estate Investment

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

Out-of-Region Opportunities

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

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

- regulatory environment;
- synergy potential;
- general economic conditions;
- potential profitability;
- additional growth opportunities within the region;
- water supply, water quality and environmental issues; and
- capital requirements.

SJW Corp. cannot be certain it will be successful in consummating any transactions relating to such opportunities. In addition, any transaction will involve numerous risks. Some of the risks include the possibility of paying more than the value derived from the acquisition, the assumption of certain known and unknown liabilities related to the acquired assets, the risk of diverting management s attention from normal daily operations of the business, the potential for a negative impact to SJW Corp. s financial condition and operating results, the risks of entering markets in which SJW Corp. has no or limited direct prior experience and the potential loss of key employees of any acquired company. SJW Corp. cannot be certain that any transaction will be successful and will not materially harm its operating results or financial condition.

Critical Accounting Policies

SJW Corp. has identified accounting policies delineated below as the policies critical to its business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. SJW Corp. bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. The impact and any associated risks related to these policies on SJW Corp. s business operations are discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect SJW Corp. s reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 of Notes to Consolidated Financial Statements. SJW Corp. s critical accounting policies are as follows:

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Revenue Recognition

SJW Corp. recognizes its regulated and nonregulated revenue when services have been rendered, in accordance with SEC Staff Accounting Bulletin 104, Revenue Recognition.

Metered revenue of the Water Utility Services includes billing to customers based on meter readings plus an estimate of water used between the customers last meter reading and the end of the accounting period. The Water Utility Services read the majority of its customers meters on a bi-monthly basis and records its revenue based on its meter reading results. Unbilled revenue from the last meter reading date to the end of the accounting period is estimated based on the most recent usage patterns, production records and the effective tariff rates. Actual results could differ from those estimates, which would result in adjusting the operating revenue in the period which the revision to the Water Utility Services estimates are determined. As of December 31, 2008 and 2007, accrued unbilled revenue was $12,896,000 and $12,654,000, respectively. Unaccounted for water for 2008 and 2007 approximated 7.4% and 7.2%, respectively, as a percentage of production. The estimate is based on the results of past experience, the trend and efforts in reducing the Water Utility Services unaccounted-for water through customer conservation, main replacements and lost water reduction programs.

Revenues also include a surcharge collected from regulated customers that are paid to the CPUC. This surcharge is recorded in operating revenues and administrative and general expenses. For the years ended December 31, 2008, 2007 and 2006, the surcharge was $2,999,000, $2,708,000 and $2,505,000, respectively.

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

Recognition of Regulatory Assets and Liabilities

Generally-accepted accounting principles for water utilities include the recognition of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. In accordance with SFAS No. 71, the Water Utility Services, to the extent applicable, record deferred costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the ratemaking process in a period different from when the costs and credits are incurred. Accounting for such costs and credits is based on management s judgment and prior historical ratemaking practices, and it occurs when management determines that it is probable that these costs and credits will be recognized in the future revenue of the Water Utility Services through the ratemaking process. The regulatory assets and liabilities recorded by the Water Utility Services, in particular, San Jose Water Company, primarily relate to the recognition of deferred income taxes for ratemaking versus tax accounting purposes and the postretirement pension benefits, medical costs, accrued benefits for vacation and asset retirement obligation that have not been passed through rates. The disallowance of any asset in future ratemaking, including deferred regulatory assets, would require San Jose Water Company to immediately recognize the impact of the costs for financial reporting purposes. No disallowance was recognized at December 31, 2008 and December 31, 2007. The net regulatory assets recorded by San Jose Water Company were $73,778,000 and $44,712,000 as of December 31, 2008 and 2007, respectively. As of December 31, 2006, San Jose Water Company has recorded its expected postretirement benefit plan liabilities and a corresponding regulatory asset relating to the implementation of the SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans, including a reclassification of benefit obligations previously recorded to comprehensive income, in the amount of $3,666,000, resulting in an increase to regulatory assets of $38,410,000. The change in regulatory assets from 2006 to 2007 and 2007 to 2008 was primarily attributable to the funded status of pensions and other postretirement benefit plans based on the projected benefit obligations and the gross-up for taxes.

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Pension Accounting

San Jose Water Company offers a defined benefit plan, an Executive Supplemental Retirement Plan and certain postretirement benefits other than pensions to employees retiring with a minimum level of service. Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate applied to expected benefit obligations, expected return on plan assets, the rate of future compensation increases received by the employees, mortality, turnover and medical costs. See assumptions and disclosures detailed in Note 10 of Notes to Consolidated Financial Statements.

The Pension Plan is administered by a committee that is composed of an equal number of Company and Union representatives (the Committee). Investment decisions have been delegated by the Committee to an Investment Manager, presently Wachovia Securities, LLC. Investment guidelines provided to the Investment Manager require that at least 25% of plan assets be invested in bonds or cash. As of December 31, 2008, the plan assets consist of approximately 45% bonds, 3% cash and 52% equities. Furthermore, equities are to be diversified by industry groups and selected to achieve preservation of capital coupled with long-term growth through capital appreciation and income. They may not invest in commodities and futures contracts, private placements, options, letter stock, speculative securities, or hold more than 5% of assets of any one private corporation. They may only invest in bonds, commercial paper, and money market funds with acceptable ratings by Moody s or Standard & Poor s. The Investment Manager is reviewed regularly regarding performance by the Investment Consultant who provides quarterly reports to the Committee for review.

The market values of the plan assets are marked to market at the measurement date. The investment trust assets incur unrealized market gains or losses from time to time. As a result the pension expense in 2008 included the amortization of unrealized market losses on pension assets. Both unrealized market gains and losses on pension assets are amortized over 13.25 years for actuarial expense calculation purposes. Market losses in 2007 increased pension expense by approximately $142,000 in 2008 and market gains in 2006 decreased pension expense by approximately $223,000 in 2007.

Income Taxes

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

Balancing Account

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

A separate balancing account must be maintained for each offset expense item (e.g., purchased water, purchased power and groundwater extraction charges). The balancing account balance varies with the seasonality of the water utility business such that, during the summer months when the demand for water is at its peak, the account tends to reflect an under-collection while, during the winter months when demand for water is relatively lower, the account tends to reflect an over-collection. Since the balances have to be approved by the CPUC before they can be incorporated into rates, San Jose Water Company does not recognize the balancing account in its revenue until the CPUC authorizes the change in customers rates. However, had the balancing account been recognized in San Jose Water Company s financial statements, San Jose Water Company s retained earnings would be decreased by the amount of the account over-collection or increased by the amount of the account under-collection, less applicable taxes. Please also see Item 1A, Risk Factors.

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As of December 31, 2008 and 2007, the total accrued balance in San Jose Water Company s balancing account was an over-collection of $1,977,000 and $1,656,000, respectively, including interest. All balancing accounts will be reviewed by the CPUC in San Jose Water Company s next general rate case.

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

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

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

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

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

Results of Operations

SJW Corp. s consolidated net income for the 12 months ending December 31, 2008 was $21,461,000, compared to $19,323,000 for the same period in 2007. The increase of $2,138,000 or 11% includes an after tax gain of $1,224,000 from the sale of Water Utility Services properties in 2008. Please refer to Note 12, Sale of Real Estate Investments under Notes to Consolidated Financial Statements.

SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operates commercial building rentals, are collectively referred to as Real Estate Services.

Operating Revenue

Operating revenue by segment was as follows:

Operating Revenue

	2008	2007 (in thousands)	2006
Water Utility Services	$ 213,801	200,004	183,809
Real Estate Services	6,546	6,486	4,317
All Other		111	1,112
	$ 220,347	206,601	189,238

Operating revenue increased $13,746,000 or 7% in 2008 compared to 2007, and $17,363,000 or 9% in 2007 compared to 2006.

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

	2008 vs. 2007 Increase/(decrease)		2007 vs. 2006 Increase/(decrease)	
	(in thousands)			
Water Utility Services:				
Consumption changes	$ (735)		$ 2,784	1%
New customers increase	574		3,002	2%
Rate increases	13,958	7%	10,409	5%
Real Estate Services	60		2,169	1%
All Other	(111)		(1,001)	
	$ 13,746	7%	$ 17,363	9%

2008 vs. 2007

Consolidated operating revenue increased by $13,746,000 in 2008 or 7% in comparison to 2007. The revenue increase consists of $13,797,000 from Water Utility Services and $60,000 from Real Estate Services. The revenue increases were offset by an $111,000 decrease in other revenues primarily due to the sale of the assets of Crystal Choice Water Service LLC on January 31, 2007.

The revenue increase for the Water Utility Services was primarily the result of increases in rates of $13,958,000 and new customers of $574,000 which was offset by a decrease in consumption of $735,000.

As noted in Item 1A, Risk Factors , the tenant of the buildings in Tennessee filed Chapter 11 bankruptcy. The tenant will have a limited period of time to decide whether it will terminate its leases or sell its rights under the leases. In the event the leases are terminated and a new tenant is not identified, Real Estate Services revenue for 2009 would be approximately $3,300,000 less than what was recognized in 2008. Further, if the buildings are vacant, Real Estate Services expects to incur holding costs for taxes, insurance, utilities and other miscellaneous expenses.

2007 vs. 2006

Consolidated operating revenue increased by $17,363,000 in 2007 or 9% in comparison to 2006. The revenue increase consists of $16,195,000 from Water Utility Services and $2,169,000 from Real Estate Services. The revenue increases were offset by a $1,001,000 decrease in other revenues primarily due to the sale of the assets of Crystal Choice Water Service LLC on January 31, 2007.

The revenue increase for the Water Utility Services was primarily the result of increases in rates, consumption, customers and a full year of operation at CLWSC. The increase in SJW Land Company was primarily due to a $3,122,000 increase in rental income from the Tennessee warehouse and commercial property acquired in February 2007 and $404,000 is attributable to a full year of rental income from the Arizona warehouse property acquired in June 2006. The SJW Land Company revenue increases were offset by a $1,357,000 decrease in parking and rental revenue as a result of the sale of parking facilities in December 2006.

Water Utility Services Operating Revenue and Customer Counts

The following tables present operating revenues and number of customers by customer group of the Water Utility Services:

Operating Revenue by Customer Group

	2008	2007	2006
		(in thousands)	
Residential and business	$ 195,901	182,917	169,251
Industrial	1,067	1,287	1,115
Public authorities	11,227	10,469	8,903

Others	5,606	5,331	4,540
	$ 213,801	200,004	183,809

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Number of Customers

	2008	2007	2006
Residential and business	228,794	227,789	226,332
Industrial	77	79	83
Public authorities	1,591	1,715	1,725
Others	3,838	3,717	3,560
	234,300	233,300	231,700

Operating Expense

Operating expense by segment was as follows:

Operating Expense

	2008	2007 (in thousands)	2006
Water Utility Services	$ 183,774	172,698	153,199
Real Estate Services	2,995	2,994	2,403
All Other	684	1,156	2,083
	$ 187,453	176,848	157,685

Operating expense increased $10,605,000 or 6% in 2008 compared to 2007, and $19,163,000 or 12% in 2007 compared to 2006.

The change in operating expense was due to the following:

	2008 vs. 2007 Increase/(decrease)		2007 vs. 2006 Increase/(decrease)	
	(in thousands)			
Water Production Costs:				
Change in surface water supply	$ (2,090)	(1)%	$ 8,685	6%
Change in usage and new customers	(8)		3,967	2%
Purchased water and groundwater extraction charge and energy price increase	6,047	3%	4,814	3%
Total water production costs	3,949	2%	17,466	11%
Administrative and general	1,354	1%	1,226	1%
Other operating expense	1,483	1%	(188)	
Maintenance	1,495	1%	1,439	1%
Property taxes and other non-income taxes	486		414	
Depreciation and amortization	1,189	1%	1,555	1%
Income taxes	649		(2,749)	(2)%
	$ 10,605	6%	$ 19,163	12%

The various components of operating expenses are discussed below.

Water production costs

2008 vs. 2007

Water production costs increased $3,949,000 primarily due to $6,047,000 in purchased water and groundwater extraction charge price increases, offset by $2,090,000 in decreased surface water supply costs due to increased availability of surface water supply in 2008 compared to 2007.

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2007 vs. 2006

The lack of precipitation in 2007 adversely impacted the Water Utility Services operating results. Water production costs increased $17,466,000 primarily due to a decreased surface water supply necessitating $8,685,000 in additional purchased water, $4,393,000 in purchased water unit price increases and additional groundwater extraction charges and $3,967,000 due to increased usage by customers and new customers.

Sources of Water Supply

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

	Source of Water Supply		
	2008	2007	2006
	(million gallons) (MG)		
Purchased water	26,436	28,688	27,722
Groundwater	22,839	21,766	14,488
Surface water	2,283	1,051	6,684
Reclaimed water	404	417	408
	51,962	51,922	49,302
Average water production cost per MG	$ 1,736	1,661	1,396

Water production in 2008 for the Water Utility Services increased 40 million gallons from 2007. Water production in 2007 increased 2,620 million gallons from 2006. The increases are primarily attributable to an increase in consumption by customers. The changes in operating expenses are consistent with the related water production changes.

The following table represents the cost of purchased water and the groundwater extraction charge for water pumped from the ground basin, per million gallons, as of December 31:

	2008	2007	2006
Purchased water	$ 1,903	1,765	1,642
Groundwater extraction charge	$ 1,596	1,458	1,335

Other Operating Expense

The following table represents components of other operating expense:

	2008	2007	2006
	(in thousands)		
Water supply	$ 1,139	1,137	1,197
Water treatment and quality	2,924	2,512	2,131
Pumping	2,257	2,066	1,913
Transmission and distribution	3,551	3,541	3,430
Customer accounts	6,273	5,416	4,820
Other	246	235	1,604
Total other operating expenses	$ 16,390	14,907	15,095

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2008 vs. 2007

Other operating expense increased $1,483,000 in 2008 or 10% in comparison to 2007. The increase consisted primarily of: (1) $556,000 due to salary increases and new hires, (2) $315,000 in contracted work due to increased repair activity, (3) $235,000 increase in materials, supplies and postage, (4) $191,000 due to an increase in uncollectible accounts, and (5) $186,000 in miscellaneous expenses.

2007 vs. 2006

Other operating expense decreased $188,000 in 2007 or 1% in comparison to 2006. The decrease consisted primarily of: (1) $745,000 due to the sale of Crystal Choice Water Service in January 2007, (2) $252,000 due to the sale of SJW Land Company parking lots in 2006 and (3) $64,000 in miscellaneous expenses. These decreases were offset by: (1) $436,000 increase in CLWSC due to an additional five months of activity and (2) $437,000 in San Jose Water Company due to salary increases and new hires.

Administrative and General Expense

2008 vs. 2007

Administrative and general expense increased $1,354,000 in 2008 or 6% in comparison to 2007. The increase consisted primarily of: (1) $833,000 due to salary increases and new hires, (2) $348,000 due to legal fees and uninsured losses, (3) $325,000 due to the increased cost of health insurance, (4) $126,000 in increased workman s compensation insurance, and (5) $340,000 in miscellaneous expenses. These increases were offset by a $618,000 decrease in pension and retirement expenses. While SJW Corp. experienced a decrease in the expense for its pension plans in 2008, it anticipates this expense to increase in 2009 due primarily to a decline in the value of the assets held by the pension plan. The decrease in the value of the assets held by the pension plan reflects the 41% decline in the S&P 500 Index for 2008.

2007 vs. 2006

Administrative and general expense increased $1,226,000 in 2007 or 6% in comparison to 2006. The increase consisted primarily of: (1) $558,000 in group insurance costs due to a greater number of employees and higher premiums, (2) $387,000 in salaries and wages due to a greater number of employees and the wage increases for the year, (3) $212,000 in property and liability insurance, (4) $204,000 in regulatory commission expense as a result of increased sales and (5) $116,000 in miscellaneous expenses. These increases were offset by a $251,000 decrease in legal and accounting fees.

Maintenance Expense

2008 vs. 2007

Maintenance expense increased $1,495,000 in 2008 or 13% in comparison to 2007, and $1,439,000 in 2007 or 14% in comparison to 2006. The increase in 2008 consisted primarily of: (1) $696,000 due to salary increases and new employees, (2) $582,000 in contracted work, paving, and materials and supplies due to increased maintenance and repairs, (3) $183,000 in transportation expenses due to the increased cost of fuel, and (4) $34,000 in miscellaneous expenses. In addition, the level of maintenance expense varies with the level of public work projects instituted by the government, weather conditions and the timing and nature of general maintenance as needed for SJW Corp. s facilities.

2007 vs. 2006

Maintenance expense increased $1,439,000 in 2007 or 14% in comparison to 2006. The increase in 2007 was primarily due to increased labor costs and an increase in water main and service leaks of approximately 41%.

Property Taxes and Other Non-income Taxes

Property taxes and other non-income taxes for 2008 and 2007 increased $486,000 and $414,000, respectively, primarily due to increased utility property placed in service.

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Depreciation

Depreciation expense increased $1,189,000 in 2008 or 5% in comparison to 2007 due to an increase in depreciable assets consisting primarily of the purchase of an office building, main additions and pumping equipment. Depreciation expense increased $1,555,000 in 2007 or 7% in comparison to 2006 due to an increase in depreciable assets, of which $769,000 is applicable to the purchase by SJW Land Company, of an office and distribution facility in Knoxville, Tennessee.

Income Tax Expense

Income tax expense for 2008 was $13,198,000, compared to $12,549,000 in 2007, excluding taxes on the gain on sale of real estate investments and utility plant of $836,000 for 2008.

The effective consolidated income tax rates for 2008, 2007 and 2006 were 40%, 40% and 41%, respectively. Please refer to Note 5, Income Taxes, of Notes to Consolidated Financial Statements for the reconciliation of actual income tax expense to expected income taxes.

Other Income and Expense

Interest expense, including interest on long-term debt and mortgages, increased $1,718,000 or 13% in 2008 compared to 2007. In December 2007, San Jose Water Company issued a senior note in the amount of $20,000,000. In addition, SJW Corp. experienced a higher level of borrowing on the line of credit for which the cost of borrowing averaged 3.68% for 2008. SJW Corp. s consolidated weighted-average cost of long-term debt, including the mortgages and the amortization of debt issuance costs was 6.9%, 6.9% and 7.3% for the years ended December 31, 2008, 2007 and 2006, respectively.

Other income for the year ended December 31, 2008 included an after-tax gain of $1,224,000 related to the sale of properties. In January 2006, SJW Land Company and San Jose Water Company sold approximately one acre of nonutility property, resulting in an after-tax gain of $1,535,000. In December 2006, SJW Land Company sold two real estate investment properties totaling approximately 6.7 acres resulting in an after-tax gain of $14,820,000. Please refer to Note 12, Sale of Real Estate Investments, under Notes to Consolidated Financial Statements.

Other comprehensive income in 2008 was $6,107,000, net of tax, which was primarily due to an increase in the market value of the investment in California Water Service Group. Other comprehensive loss in 2007 was $2,201,000, net of tax, which was primarily due to a decrease in the market value of the investment in California Water Service Group.

Liquidity and Capital Resources

The Water Utility Services business derives the majority of its revenue directly from residential and business customers. The Water Utility Services bills the majority of its customers on a bi-monthly basis. Payments from customers are impacted by the general economic conditions in the areas where SJW Corp. operates. The current United States recession and related high unemployment rate may have the effect of increasing payment delinquencies. However, such delinquencies are mitigated by service interruptions due to non-payment and the related customer policies. Because California is a high cost of living state, it is possible that Californian s may migrate to other states with a lower cost of living during this recessionary environment. As of December 31, 2008, the decline in the number of customers is minimal and write-offs for uncollectible accounts have been less than 1% of total revenue.

Funds collected from the Water Utility Service s customers are used to pay for water production costs, in addition to all costs associated with general operations. Funds are also generated by the issuance of new debt. From these amounts, SJW Corp. paid cash dividends of approximately $11,875,000 and funded its working capital. The remaining amount is available to fund SJW Corp. s capital expenditure program. In addition to using such internally generated funds, we also fund our capital program with the issuance of new debt.

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In 2008, the common dividends declared and paid on SJW Corp. s common stock represented 55% of net income for 2008. Dividends have been paid on SJW Corp. s and its predecessor s common stock for 261 consecutive quarters and the annual dividend amount has increased in each of the last 41 years. While historically SJW Corp. has paid dividends equal to approximately 50% to 60% of its earnings, we cannot guarantee that trend will continue in the future.

Cash Flow from Operations

In 2008, SJW Corp. generated cash flow from operations of approximately $51,800,000, compared to $42,000,000 in 2007 and $44,300,000 in 2006. Cash flow from operations is primarily generated by net income adjusted for non-cash expenses such as depreciation and amortization, deferred income taxes and gains on the sale of assets, offset by working capital changes. The increase in 2008 of cash flow from operations of approximately $9,800,000 was affected by an increase of approximately $9,900,000 in net income adjusted for non-cash items and approximately a $200,000 decrease in working capital. The increase in net income adjusted for non-cash items is primarily related to a decrease in taxes paid of $8,700,000 in 2008 due to bonus depreciation allowed in 2008 but not in 2007 and working capital uses were due to changes in various accruals and a decrease in pension expense from 2007 to 2008. Cash flow from operations in 2007 decreased approximately $2,300,000, which was largely attributable to the decline in operating income in that period.

Cash Flow from Investing Activities

In 2008, SJW Corp. used approximately $68,900,000 of cash for company funded capital expenditures and received approximately $3,300,000 from the sale of real estate investments. In 2007, SJW Corp. used approximately $73,200,000 of cash for company funded capital expenditures and $48,200,000 for the purchase of real estate investments, of which approximately $31,200,000 was due to the sale proceeds held in a trust account from the sale of real estate investments in 2006.

The Water Utility Services budgeted capital expenditures for 2009, exclusive of capital expenditures financed by customer contributions and advances is as follows:

	Budgeted Capital Expenditures 2009 (in thousands)	
Water treatment	$ 1,839	2%
Source of supply	3,661	5%
Reservoirs and tanks	4,431	6%
Pump stations and equipment	6,606	9%
Equipment and other	7,529	11%
Green and alternative energy	8,974	13%
Distribution system	38,374	54%
	$ 71,414	100%

The 2009 capital expenditures budget is concentrated in main replacements. Included in the distribution system budgeted capital expenditures of $38,374,000 is approximately $28,000,000 that is planned to be spent to replace the Water Utility Services pipes and mains.

The Water Utility Services capital expenditures are incurred in connection with normal upgrading and expansion of existing facilities and to comply with environmental regulations. Over the next five years, the Water Utility Services expects to incur approximately $386,885,000 in capital expenditures, which includes replacement of pipes and mains, and maintaining water systems. The Water Utility Services actual capital expenditures may vary from their projections due to changes in the expected demand for services, weather patterns, actions by governmental agencies and general economic conditions. Total additions to utility plant normally exceed company-financed additions as a result of new facilities construction funded with advances from developers and contributions in aid of construction.

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

Cash Flow from Financing Activities

In 2008, borrowings on the line of credit were slightly lower than 2007 and 2006. Repayments on the line of credit were also lower in 2008 compared to 2007 and 2006. In 2007, San Jose Water Company issued two senior notes each in the amount of $20,000,000. In 2006, SJW Land Company obtained a mortgage loan of approximately $3,825,000 and SJWTX, Inc. issued a senior note in the amount of $15,000,000.

The availability on SJW Corp. s line of credit is $13,600,000 as of December 31, 2008. SJW Corp. expects to draw down on this line of credit and continue its practice of issuing long-term debt to fund its capital expenditure program. See also Sources of Capital Water Utility Services below.

Sources of Capital

Water Utility Services

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.

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. The average borrowing rate of San Jose Water Company s long-term debt is 7.05%.

Company internally-generated funds, which include allowances for depreciation and deferred income taxes, have provided approximately 50% of the future cash requirements for San Jose Water Company s capital expenditure. Funding for its future capital expenditure program will be provided primarily through internally-generated funds and long-term debt and will be consistent with the regulator s guidelines.

San Jose Water Company has outstanding $170,000,000 of unsecured senior notes as of December 31, 2008. The senior note agreements of San Jose Water Company generally have terms and conditions that restrict the company from issuing additional funded debt if (1) the funded debt would exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar month period would be less than 175% of interest charges. As of December 31, 2008, San Jose Water Company s funded debt was 48% of total capitalization and the net income available for interest charges was 384% of interest charges.

On February 2, 2009, San Jose Water Company issued $10,000,000 of Senior Notes Series J, with an interest rate of 6.54%. Proceeds from the sales of Senior Notes Series J will be used to repay short-term borrowings.

San Jose Water Company has received two loans in the aggregate principal amount of $3,076,000 from the California Department of Water Resources Safe Drinking Water State Revolving Fund (SDWSRF) for the retrofit of San Jose Water Company s water treatment plants. Terms of these loans require semi-annual payments over 20 years of principal and interest at an annual rate of 2.39% and 2.60%. The outstanding balance as of December 31, 2008 is $2,812,000.

SJWTX, Inc., doing business as Canyon Lake Water Service Company, has outstanding $15,000,000 of senior notes as of December 31, 2008. The senior note agreement has terms and conditions that restrict the

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company from issuing additional funded debt if (1) the funded debt would exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar month period would be less than 175% of interest charges. In addition, SJW Corp. is a guarantor of SJWTX, Inc. s senior note which has terms and conditions that restrict SJW Corp. from issuing additional funded debt if (1) the funded debt would exceed 66-2/3% of total capitalization, and, (2) the minimum net worth of SJW Corp. becomes less than $125,000,000 plus 30% of the Water Utility Services cumulative net income, since December 31, 2005.

Real Estate Services

As of December 31, 2008, SJW Land Company s outstanding balance of mortgages related to acquiring properties in various states totaled $25,601,000. The mortgages have various payments, interest and amortization terms and all are secured by the respective properties. The average borrowing rate of SJW Land Company mortgages is 6.07%.

As of December 31, 2008, SJW Land Company also had an outstanding mortgage loan in the amount of $3,905,000 borrowed by its subsidiary, 444 West Santa Clara Street, L.P. The mortgage loan is due April 2011 and is amortized over 25 years with an interest rate of 7.8%. The mortgage loan is secured by the partnership s real property and is non-recourse to SJW Land Company.

SJW Corp. and its Subsidiaries

SJW Corp. and its subsidiaries consolidated long-term debt was 46% of total capitalization as of December 31, 2008. Management believes that SJW Corp. is capable of obtaining future long-term capital to fund regulated and nonregulated growth opportunities and capital expenditure requirements.

SJW Corp. and its subsidiaries have an unsecured line of credit available that allows aggregate short-term borrowings of up to $35,000,000 at rates that approximate the bank s prime or reference rate. At December 31, 2008, SJW Corp. and its subsidiaries had available unused short-term bank line of credit of $13,600,000. The cost of borrowing averaged 3.68% for 2008. The line of credit expires on June 1, 2010.

Off-Balance Sheet Arrangement/Contractual Obligations

SJW Corp. has no significant contractual obligations not fully recorded on its Consolidated Balance Sheet or not fully disclosed in the Notes to Consolidated Financial Statements.

SJW Corp. s contractual obligation and commitments as of December 31, 2008 are as follows:

	Contractual Obligations Due in			
	Total	Less than 1 Year	1-5 Years	After 5 Years
		(in thousands)		
Senior notes, Water Utility Services	$ 185,000			185,000
SJW Land Company mortgages	25,601	511	9,733	15,357
Advances for construction, San Jose Water Company	74,787	2,256	8,828	63,703
SDWSRF loan, San Jose Water Company	2,812	127	539	2,146
444 West Santa Clara Street, L.P. long-term debt (non-recourse to SJW Land Company)	3,905	109	3,796	
Total contractual cash obligation	$ 292,105	3,003	22,896	266,206
Total interest on contractual obligations	$ 271,975	14,711	57,459	199,805

In addition to the obligations listed above, San Jose Water Company issued a standby letter of credit with a commercial bank in the amount of $2,000,000 and $1,000,000 in support of its $1,763,000 and $1,049,000 SDWSRF loans which were funded in 2005 and 2008. The letter of credit automatically renews for one year each December and the amount of coverage can be reduced as the principal balance decreases.

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San Jose Water Company purchases water from SCVWD under terms of a master contract expiring in 2051. Delivery schedules for purchased water are based on a contract year beginning July 1, and are negotiated every three years under terms of the master contract with SCVWD. For the years ending December 31, 2008, 2007 and 2006, San Jose Water Company purchased from SCVWD 22,500 million gallons ($41,500,000), 22,600 million gallons ($38,500,000) and 21,500 million gallons ($34,500,000), respectively. Based on current prices and estimated deliveries, San Jose Water Company expects to purchase from SCVWD a minimum of 90% of the delivery schedule, or 23,700 million gallons ($45,000,000) of water at the current contract water rate of $1,903 per million gallons in the contract year ending June 30, 2009. Additionally, San Jose Water Company purchases non-contract water from SCVWD on an as needed basis if the water supply is available from SCVWD. The contract water rates are determined by SCVWD. These rates are adjusted periodically and coincide with SCVWD s fiscal year, which ends annually on June 30. The contract water rates for SCVWD s fiscal year ended 2009, 2008 and 2007 were $1,903, $1,765 and $1,642, per million gallons, respectively.

San Jose Water Company also pumps water from the local groundwater basin. There are no delivery schedules or contractual obligations associated with the purchase of groundwater. SCVWD determines the groundwater extraction charge and it is applied on a per unit basis. In addition to the SCVWD groundwater extraction charge, San Jose Water Company also incurs power costs to pump the groundwater from the basin.

San Jose Water Company sponsors a noncontributory defined benefit pension plan and provides health care and life insurance benefits for retired employees. In 2008, San Jose Water Company contributed $3,000,000 to the pension plan. In 2009, San Jose Water Company expects to make a contribution of $3,300,000 and $394,000 to the pension plan and other post retirement benefit plan, respectively. The amount of required contributions for years thereafter is not actuarially determinable.

San Jose Water Company s other benefit obligations include employees and directors postretirement contracts, an Executive Supplemental Retirement Plan and an Executive Special Deferral Election Plan. Under these benefit plans, San Jose Water Company is committed to pay approximately $365,000 annually to former officers and directors. Future payments may fluctuate depending on the life span of the retirees and as current officers and executives retire.

CLWSC purchases water from GBRA under terms of agreements expiring in 2044 and 2050. The agreements, which are take-or-pay contracts, provide CLWSC 6,000 acre-feet per year of water supply from GBRA. The water rate may be adjusted by GBRA at any time, provided they give CLWSC 60-day written notice on the proposed adjustment.

444 West Santa Clara Street, L.P.

SJW Land Company owns a 70% limited partnership interest in 444 West Santa Clara Street, L.P., a real estate limited partnership. A real estate development firm, which is partially owned by the Chairman of the Board of SJW Corp., owns the remaining 30% limited partnership interest. A commercial building is constructed on the property of 444 West Santa Clara Street, L.P. and is leased to an international real estate firm under a 12-year lease. The partnership is being accounted for under FIN46R.

Impact of Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 requires noncontrolling interests, previously referred to as minority interests, to be reported as a component of equity, net income and comprehensive income to be displayed for both the controlling and noncontrolling interests, along with other required disclosures and reconciliations. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. SJW Corp. has evaluated the impact of SFAS 160 and the effect is considered not material to SJW Corp. s financial position, results of operations and cash flow.

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In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R (SFAS 141R), Business Combinations. SFAS 141R clarifies the information that a reporting entity provides in its financial reports about a business combination and it replaces SFAS 141. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SJW Corp. has evaluated the impact of SFAS 141R and the effect is considered not material to SJW Corp. s financial position, results of operations and cash flow.

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. Future financing is subject to the exposure to changes in interest rates. 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 material derivative financial instruments, financial instruments with significant off-balance sheet risks, or financial instruments with concentrations of credit risk. There is no material sensitivity to changes in market rates and prices.

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Item 8. *Financial Statements and Supplementary Data*

Report of Independent Registered Public Accounting Firm

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, 2008 and 2007, 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, 2008. In connection with our audits of the consolidated financial statements, we also have audited the 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 based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. 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 material respects, the information set forth therein.

As discussed in note 5 to the consolidated financial statements, effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of internal control over financial reporting of the Company as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2009 expressed an unqualified opinion on the effective operation of internal control over financial reporting.

/s/ KPMG LLP

Mountain View, California
March 6, 2009

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Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Directors

SJW Corp.:

We have audited SJW Corp. s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). SJW Corp. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting appearing under item 9A. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and board of directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, SJW Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of SJW Corp. and subsidiaries as of December 31, 2008 and 2007, 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, 2008, and our report dated March 6, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Mountain View, California
March 6, 2009

SJW Corp. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2008	December 31, 2007
Assets		
Utility plant:		
Land	$ 8,134	5,695
Depreciable plant and equipment	855,427	778,277
Construction in progress	7,142	24,298
Intangible Assets	8,040	8,040
	878,743	816,310
Less accumulated depreciation and amortization	272,562	255,025
	606,181	561,285
Real estate investment	88,000	88,029
Less accumulated depreciation and amortization	5,511	3,834
	82,489	84,195
Current assets:		
Cash and cash equivalents	3,406	2,354
Accounts receivable:		
Customers, net of allowances for uncollectible accounts of $279 in 2008 and $196 in 2007	11,622	10,390
Income tax	657	2,557
Other	1,154	1,222
Accrued unbilled utility revenue	12,896	12,654
Materials and supplies	933	782
Prepaid expenses	1,293	1,632
	31,961	31,591
Other assets:		
Investment in California Water Service Group	51,071	40,720
Unamortized debt issuance and reacquisition costs	3,162	3,345
Regulatory assets	73,778	44,712
Other	2,235	1,478
	130,246	90,255
	$ 850,877	767,326

See accompanying notes to consolidated financial statements.

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SJW Corp. and Subsidiaries

CONSOLIDATED BALANCE SHEETS (Continued)

(in thousands, except share and per share data)

	December 31, 2008	2007
Capitalization and Liabilities		
Capitalization:		
Shareholders equity:		
Common stock, $0.521 par value; authorized 36,000,000 shares; issued and outstanding 18,452,447 shares in 2008 and 18,361,733 shares in 2007	$ 9,611	9,564
Additional paid-in capital	20,548	18,723
Retained earnings	204,744	195,331
Accumulated other comprehensive income	19,423	13,316
Total shareholders equity	254,326	236,934
Long-term debt, less current portion	216,613	216,312
	470,939	453,246
Current liabilities:		
Line of credit	18,400	5,000
Current portion of long-term debt	705	622
Accrued groundwater extraction charges and purchased water	5,256	5,595
Purchased power	563	514
Accounts payable	5,758	9,268
Accrued interest	4,567	4,522
Accrued taxes	855	791
Accrued payroll	3,325	2,583
Other current liabilities	3,894	4,059
	43,323	32,954
Deferred income taxes	97,038	74,643
Unamortized investment tax credits	1,675	1,735
Advances for construction	74,787	74,518
Contributions in aid of construction	114,082	100,649
Deferred revenue	1,247	1,313
Postretirement benefit plans	42,331	23,357
Other noncurrent liabilities	5,455	4,911
Commitments and contingencies		
	$ 850,877	767,326

See accompanying notes to consolidated financial statements.

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SJW Corp. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31 (in thousands, except share and per share data)

	2008	2007	2006
Operating revenue	$ 220,347	206,601	189,238
Operating expense:			
Operation:			
Purchased water	48,291	48,596	44,896
Power	7,559	7,532	5,170
Groundwater extraction charges	34,368	30,141	18,737
Total production costs	90,218	86,269	68,803
Administrative and general	23,688	22,334	21,108
Other	16,390	14,907	15,095
Maintenance	13,123	11,628	10,189
Property taxes and other nonincome taxes	6,793	6,307	5,893
Depreciation and amortization	24,043	22,854	21,299
Income taxes	13,198	12,549	15,298
Total operating expense	187,453	176,848	157,685
Operating income	32,894	29,753	31,553
Other (expense) income:			
Interest on senior notes	(12,358)	(10,912)	(9,292)
Mortgage and other interest expense	(2,369)	(2,097)	(1,833)
Gain on sale of real estate investments, net of taxes of $567 in 2008 and $11,248 in 2006	832		16,355
Gain on the sale of utility property, net of taxes of $269	392		
Dividends	1,287	1,276	1,265
Other, net	783	1,303	533
Net income	$ 21,461	19,323	38,581
Other comprehensive income (loss):			
Unrealized income (loss) on investment, net of taxes of $4,244 in 2008, $1,529 in 2007 and $984 in 2006	6,107	(2,201)	1,415
Minimum pension liability adjustment, net of taxes of $2,521 in 2006			3,666
Other comprehensive income (loss)	6,107	(2,201)	5,081
Comprehensive income	$ 27,568	17,122	43,662
Earnings per share			
Basic	$ 1.17	1.05	2.11
Diluted	$ 1.15	1.04	2.08
Weighted average shares outstanding			
Basic	18,410,122	18,334,352	18,275,505
Diluted	18,609,836	18,552,228	18,528,896

See accompanying notes to consolidated financial statements.

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SJW Corp. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(in thousands, except share and per share data)

	Common Stock					
	Number of Shares	**Amount**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Shareholders Equity**
Balances, December 31, 2005	18,270,882	$ 9,516	$ 15,368	$ 160,588	$ 10,436	$ 195,908
Cumulative effect of adoption of SAB 108 (see Note 1)				(1,744)		(1,744)
Adjusted balances as of January 1, 2006	18,270,882	9,516	15,368	158,844	10,436	194,164
Net income				38,581		38,581
Other comprehensive income						
Unrealized gain on investment, net of tax effect of $984					1,415	1,415
Reclassification of minimum pension liability to Regulatory Asset, net of tax effect of $2,521, in conjunction with the implementation of SFAS 158 (see Note 11)					3,666	3,666
Comprehensive income						43,662
Stock-based compensation			633	(223)		410
Exercise of stock options and similar instruments	1,939	1	35			36
Employee stock purchase plan	8,948	5	231			236
Dividends paid ($.57 per share)				(10,326)		(10,326)
Balances, December 31, 2006	18,281,769	$ 9,522	$ 16,267	$ 186,876	$ 15,517	$ 228,182
Cumulative effect of adoption of FASB Interpretation No. 48 (see Note 5)				444		444
Adjusted balances as of January 1, 2007	18,281,769	9,522	16,267	187,320	15,517	228,626
Net income				19,323		19,323
Other comprehensive income						
Unrealized loss on investment, net of tax effect of $1,529					(2,201)	(2,201)
Comprehensive income						17,122
Stock-based compensation			655	(223)		432
Exercise of stock options and similar instruments	65,223	34	1,316			1,350
Employee stock purchase plan	14,741	8	485			493
Dividends paid ($.60 per share)				(11,089)		(11,089)
Balances, December 31, 2007	18,361,733	9,564	18,723	195,331	13,316	236,934
Net income				21,461		21,461
Other comprehensive income						
Unrealized gain on investment, net of tax effect of $4,244					6,107	6,107
Comprehensive income						27,568
Stock-based compensation			601	(173)		428
Exercise of stock options and similar instruments	61,230	32	716			748
Employee stock purchase plan	17,807	9	487			496
Issuance of stock to minority interest holder of CLWSC	11,677	6	21			27
Dividends paid ($.65 per share)				(11,875)		(11,875)
Balances, December 31, 2008	18,452,447	9,611	20,548	204,744	19,423	254,326

See accompanying notes to consolidated financial statements.

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SJW Corp. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (in thousands)

	2008	2007	2006
Operating activities:			
Net income	$ 21,461	19,323	38,581
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,043	22,854	21,299
Deferred income taxes	6,079	(1,778)	10,773
Stock-based compensation	601	655	436
Gain on sale of real estate investments, net of taxes	(832)		(16,355)
Gain on sale of utility property, net of taxes	(392)		
Changes in operating assets and liabilities:			
Accounts receivable and accrued unbilled utility revenue	(1,406)	(2,310)	(1,570)
Accounts payable, purchased power and other current liabilities	(1,107)	(731)	1,488
Accrued groundwater extraction charges and purchased water	(339)	1,352	260
Accrued taxes	542	(1,760)	(1,697)
Accrued interest	45	652	253
Accrued payroll	892	(272)	(95)
Prepaid expenses and materials and supplies	188	55	(176)
Postretirement benefits	713	1,921	478
Other noncurrent assets and noncurrent liabilities	(302)	873	(9,016)
Other changes, net	1,606	1,197	(361)
Net cash provided by operating activities	51,792	42,031	44,298
Investing activities:			
Additions to utility plant	(68,943)	(73,217)	(58,028)
Additions to real estate investment		(48,245)	(12,718)
Cost to retire utility plant, net of salvage	(2,594)	(1,160)	(1,013)
Payments for business acquisitions, net of cash acquired			4,083
Proceeds from sale of real estate investment	3,304		33,632
Proceeds from sale of utility property	1,582		
Sale proceeds held in trust account		31,261	(31,261)
Net cash used in investing activities	(66,651)	(91,361)	(65,305)
Financing activities:			
Cancellation of Canyon Lake Water Supply Corporation bonds			(19,951)
Borrowings from line of credit	25,950	31,400	37,000
Repayments of line of credit	(12,550)	(41,900)	(21,500)
Long-term borrowings	1,069	53,500	18,855
Repayments of long-term borrowings	(685)	(699)	(334)
Dividends paid	(11,875)	(11,089)	(10,326)
Exercise of stock options and similar instruments	890	1,298	226
Tax benefits realized from share options exercised	381	545	10
Receipts of advances and contributions in aid of construction	15,025	17,016	13,443
Refunds of advances for construction	(2,294)	(2,175)	(2,026)
Net cash provided by financing activities	15,911	47,896	15,397

Net change in cash and cash equivalents	1,052	(1,434)	(5,610)
Cash and cash equivalents, beginning of year	2,354	3,788	9,398
Cash and cash equivalents, end of year	$ 3,406	2,354	3,788
Cash paid during the year for:			
Interest	$ 15,249	13,142	11,332
Income taxes	$ 6,304	15,018	17,158
Supplemental disclosure of non-cash activities:			
Accrued payables for additions to utility plant	$ (2,626)	2,849	
Decrease in real estate investments due to transfer to utility property	$	3,035	
Utility property installed by developers	$ 4,049		

See accompanying notes to consolidated financial statements.

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SJW CORP. AND SUBSIDIAIRES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008, 2007 and 2006

(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 subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. A subsidiary in which SJW Corp. has a controlling interest is consolidated in the financial statements with the minority interest included as other in the Consolidated Statements of Income and Comprehensive Income and in other non-current liabilities in the Consolidated Balance Sheets.

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 CPUC and conform to generally accepted accounting principles for rate-regulated public utilities. Approximately 92% of San Jose Water Company s revenues are derived from the sale of water to residential and business customers.

SJWTX, Inc., doing business as Canyon Lake Water Service Company (CLWSC), a wholly owned subsidiary, was incorporated in September 2005. On May 31, 2006, CLWSC purchased substantially all the assets of Canyon Lake Water Supply Corporation. CLWSC provides service to approximately 8,700 connections that serve approximately 36,000 residents in a service area comprising more than 153 square miles in the region between San Antonio and Austin, Texas, as of December 31, 2008.

SJW Land Company owned and operated parking facilities, which are located adjacent to San Jose Water Company s headquarters and the HP Pavilion in San Jose, California, until December 15, 2006 when the real estate investments were sold to Adobe Systems Incorporated for an aggregate purchase price of $32,500. SJW Land Company also owns commercial properties, several undeveloped real estate properties, and warehouse properties in the states of California, Florida, Connecticut, Arizona, Texas and Tennessee and holds a 70% limited partnership interest in 444 West Santa Clara Street, L.P., which is accounted for under the Financial Accounting Standards Board (FASB) Interpretation No. 46(R), Consolidation of Variable Interest Entities (see Note 9).

Together, San Jose Water Company and CLWSC are referred to as Water Utility Services.

Use of Estimates

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 2008, 2007 and 2006 was $461, $527 and $458, respectively. Construction in progress was $7,142 and $24,298 at December 31, 2008 and 2007, respectively.

The major components of depreciable plant and equipment as of December 31, 2008 and 2007 are as follows:

	2008	2007
Equipment	$ 164,672	145,188
Transmission and distribution	641,344	597,281
Office buildings and other structures	49,411	35,808
Total depreciable plant and equipment	$ 855,427	778,277

Depreciation is computed using the straight-line method over the estimated service lives of the assets, ranging from 5 to 75 years. The estimated service lives of depreciable plant and equipment are as follows:

	Useful Lives
Equipment	5 to 35 years
Transmission and distribution plant	35 to 75 years
Office buildings and other structures	7 to 50 years

For the years 2008, 2007 and 2006, depreciation expense was approximately 3.5%, 3.6% and 3.6%, respectively, of the beginning of the year balance of depreciable plant for all years excluding certain items credited to depreciation expense. The cost of utility plant retired, including retirement costs (less salvage), is charged to accumulated depreciation and no gain or loss is recognized. Depreciation expense for utility plant for the years ended December 31, 2008, 2007 and 2006 was $22,067, $20,956 and $20,095, respectively.

Utility Plant Intangible Assets

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, ranging from 5 to 70 years (see Note 6).

Real Estate Investments

Real estate investments are recorded at cost and consist primarily of land and buildings. The major components of real estate investments as of December 31, 2008 and 2007 are as follows:

	2008	2007
Land	$ 22,381	22,369
Buildings and improvements	65,388	65,429
Intangibles	231	231
Total real estate investment	$ 88,000	88,029

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

Land and buildings and improvements include assets held for lease of $86,641 as of December 31, 2008 and 2007. The following schedule shows the future minimum rental payments required under operating leases that have remaining noncancelable lease terms in excess of one year as of December 31, 2008:

Year ending December 31:	Rental Payments

2009	$ 3,598
2010	3,192
2011	3,204
2012	2,641
2013	2,370
Thereafter	24,729

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Impairment of Long-Lived Assets

In accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the long-lived assets of SJW Corp. are reviewed for impairment when changes in circumstances or events require adjustments to the carrying values of the assets. Long-lived assets consist primarily of utility plant in service, real estate investments, intangible assets, and regulatory assets.

Financial Instruments

The carrying amount of SJW Corp. s current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented due to the short maturity of the instruments (see Note 14). The fair market value of long-term debt is discussed in Note 4.

Investment in California Water Service Group

SJW Corp. s investment in California Water Service Group is accounted for under SFAS 115, Accounting for Marketable Securities, as an available-for-sale marketable security. The investment is recorded on the Consolidated Balance Sheet at quoted market price with the change in unrealized gain or loss reported, net of tax, as a component of other comprehensive income.

Other Assets

Debt reacquisition costs are amortized over the term of the related debt. Debt issuance costs are amortized to interest expense in the Consolidated Statements of Income and Comprehensive Income.

Regulatory Assets and Liabilities

Generally-accepted accounting principles for water utilities include the recognition of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. In accordance with SFAS No. 71, the Water Utility Services, to the extent applicable, records deferred costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the ratemaking process in a period different from when the costs and credits are incurred. San Jose Water Company records regulatory assets for future revenues expected to be realized in customers rates when certain items are recognized as expenses for ratemaking purposes. The income tax temporary differences relate primarily to the difference between book and income tax depreciation on utility plant that was placed in service before CPUC adopted normalization for ratemaking purposes. Previously the tax effect was passed onto customers. In the future, when such timing differences reverse, San Jose Water Company believes it is probable that it will be able to include the impact of the deferred tax reversal in customer rates. The differences will reverse over the remaining book lives of the related assets. Although realization is not assured, management believes it is more likely than not that all of the regulatory asset will be realized. In addition, regulatory assets include items that are not recognized for ratemaking purposes, such as certain expenses related to postretirement benefits, accrued vacation obligation and asset retirement obligations which are expected to be recoverable in future customer rates.

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. San Jose Water Company continually evaluates the recoverability of regulatory assets by assessing whether the amortization of the balance over the remaining life can be recovered through expected and undiscounted future cash flows.

Regulatory liabilities reflect temporary differences provided at higher than the current tax rate, which will flow through to future ratepayers, and unamortized investment tax credits.

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Regulatory assets and liabilities are comprised of the following as of December 31:

	2008	2007
Regulatory assets:		
Income tax temporary differences	$ 10,927	12,135
Postretirement pensions and other medical benefits	61,347	30,349
Other obligations	3,876	4,089
Total regulatory assets	$ 76,150	46,573
Regulatory liabilities:		
Future tax benefits to ratepayers	$ 2,372	1,861
Net Regulatory Assets included in Balance Sheet	$ 73,778	44,712

Income Taxes

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 liabilities are measured using current tax rates in effect. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

To the extent permitted by 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

In California, advances for construction received after 1981 are being refunded ratably over 40 years. Estimated refunds for the next five years and thereafter are shown below:

	Estimated Refunds
2009	$ 2,256
2010	2,211
2011	2,209
2012	2,204
2013	2,204
Thereafter	63,703

Contributions in aid of construction represent funds received from developers that are not refundable under applicable 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, unless specifically prescribed under treasury regulations.

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

Asset Retirement Obligation

SJW Corp. s asset retirement obligation is recorded as a liability included in other non-current liabilities. It reflects principally the retirement costs of wells, which by law, must be remediated upon retirement. Retirement costs have historically been recovered through rates at the time of retirement. As a result, the liability is offset by a regulatory asset. For the years ended December 31, 2008 and 2007, the asset retirement obligation is as follows:

	2008	2007
Retirement obligation	$ 3,745	3,698
Discount rate	6%	6%
Present value	1,023	1,000
Deferred tax	704	688
Regulatory asset	$ 1,727	1,688

Revenue

SJW Corp. recognizes its regulated and nonregulated revenue when services have been rendered, in accordance with SEC Staff Accounting Bulletin 104, Revenue Recognition.

Metered revenue of the Water Utility Services include billings to customers based on meter readings plus an estimate of water used between the customers last meter reading and the end of the accounting period. The Water Utility Services read the majority of its customers meters on a bi-monthly basis and record its revenue based on its meter reading results. Unbilled revenue from the last meter reading date to the end of the accounting period is estimated based on the most recent usage patterns, production records and the effective tariff rates. Actual results could differ from those estimates, which would result in adjusting the operating revenue in the period which the revision to Water Utility Services estimates are determined. Operating revenue in 2008, 2007 and 2006 includes $4,612, $4,561 and $4,045, respectively, from the operation of the City of Cupertino municipal water system.

Revenues also include a surcharge collected from regulated customers that are paid to the CPUC. This surcharge is recorded in operating revenues and administrative and general expenses. For the years ended December 31, 2008, 2007 and 2006, the surcharge was $2,999, $2,708 and $2,505, respectively.

Revenue from San Jose Water Company s nonregulated utility operations and billing or maintenance agreements are recognized when services have been rendered. Revenue from SJW Land Company is recognized ratably over the term of the leases.

Balancing Account

For California, the CPUC has established a balancing account mechanism for the purpose of tracking the under-collection or over-collection associated with expense changes and the revenue authorized by CPUC to offset those expense changes. Since the balances have to be approved by CPUC before they can be incorporated into rates, San Jose Water Company does not recognize the balancing account in its revenue until CPUC authorizes the change in customers rates. As of December 31, 2008 and 2007, the total accrued in San Jose Water Company s balancing account was an over-collection of $1,977 and $1,656, respectively, including interest.

Pension Accounting

In September 2006, the Financial Accounting Standards Board issued FASB Statement No. 158 (Statement 158), Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans. As of December 31, 2006, SJW Corp. adopted Statement 158. Statement 158 requires employers to recognize on their balance sheets the funded status of pensions and other postretirement benefit plans based on the projected benefit obligations.

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Share-Based Payment

SJW Corp. utilizes the Black-Scholes option-pricing model, which requires the use of subjective assumptions, to compute the fair value of options at grant date, the fair value of options granted and is the basis for the share-based compensation for financial reporting purposes. In addition, SJW Corp. estimates forfeitures for the share-based awards that are not expected to vest.

Maintenance Expense

Planned major maintenance projects are charged to expense as incurred. SJW Corp. does not accrue maintenance costs prior to periods in which they are incurred.

Earnings per Share

Basic earnings per share is calculated using income available to common shareholders, divided by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated based upon the weighted average number of common shares including both shares outstanding and shares potentially issued in connection with stock options and restricted common stock units granted under SJW Corp. s Long-Term Incentive Plan, and income available to common shareholders. Anti-dilutive restricted common stock units and stock options of 2,909, 146 and 104 as of December 31, 2008, 2007 and 2006, respectively, were excluded from the dilutive earnings per share calculation.

Note 2. Capitalization

SJW Corp. is authorized to issue 36,000,000 shares of common stock of $0.521 par value per share. At December 31, 2008 and 2007, 18,452,447 and 18,361,733, respectively, shares of common stock were issued and outstanding.

At December 31, 2008 and 2007, 176,407 shares of preferred stock of $25 par value per share were authorized and none were outstanding.

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 $35,000. This line of credit bears interest at variable rates and expires on June 1, 2010. As of December 31, 2008 and 2007, SJW Corp. has an outstanding balance on the line of credit of $18,400 and $5,000, respectively. Cost of borrowing averaged 3.68% and 6.19%, respectively, as of December 31, 2008 and 2007.

San Jose Water Company issued two standby letters of credit with a commercial bank in the amount of $3,000 in support of its Safe Drinking Water State Revolving Fund (SDWSRF) loans which was funded in 2005 and 2008. The letters of credit automatically renews for one year each December unless the issuing bank elects not to renew it, and the amount of coverage can be reduced as the loan principal balance decreases.

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Note 4. Long-Term Debt

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

Description	Due Date	2008	2007
Senior notes, San Jose Water Company:			
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	20,000
G 5.93%	2033	20,000	20,000
H 5.71%	2037	20,000	20,000
I 5.93%	2037	20,000	20,000
SJWTX, Inc. Series A 6.27%	2036	15,000	15,000
Total senior notes		$ 185,000	185,000
Mortgage loans 5.61% - 6.09%	2017	25,601	26,081
444 West Santa Clara Street, L.P. 7.80% (non-recourse to SJW Land Company)	2011	3,905	4,006
SDWSRF loans 2.39% and 2.60%, San Jose Water Company	2027	2,812	1,847
Total debt		$ 217,318	216,934
Less: Current portion		705	622
Total long-term debt, less current portion		$ 216,613	216,312

Senior notes held by institutional investors are unsecured obligations of San Jose Water Company and SJWTX, Inc. (SJWTX) and require interest-only payments until maturity. To minimize issuance costs, all of the companies debt has historically been privately placed.

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

The senior note agreement of SJWTX has terms and conditions that restrict SJWTX from issuing additional funded debt if (1) the funded debt would exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar month period would be less than 175% of interest charges. In addition, SJW Corp. is a guarantor of the senior note which has terms and conditions that restrict SJW Corp. from issuing additional funded debt if (1) the funded debt exceeds 66-2/3% of total capitalization, and (2) the minimum net worth of SJW Corp. becomes less than $125,000 plus 30% of the Water Utility Services cumulative net income since December 31, 2005. As of December 31, 2008, SJW Corp. does not face any restrictions in issuing any future indebtedness as a result of these terms and conditions.

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The mortgage loans, which are the obligations of SJW Land Company, are due in 2013, 2016 and 2017. These loans amortize over 25 years, are secured by four leased properties and carry a fixed interest rate with 120 monthly principal and interest payments. The loan agreements generally restrict the company from prepayment in the first three years and require submission of periodic financial reports as part of the loan covenants. An amortization schedule of the mortgage loans is as follows:

	Amortization Schedule		
Year	**Total Payment**	**Interest**	**Principal**
2009	1,992	1,481	511
2010	1,992	1,450	542
2011	1,992	1,418	574
2012	1,992	1,385	607
2013	9,096	1,086	8,010
Thereafter	17,962	2,605	15,357

444 West Santa Clara Street, L.P., in which SJW Land Company owns a 70% limited partnership interest, has a mortgage loan in the outstanding amount of $3,905 as of December 31, 2008. The mortgage loan is due in April 2011 and amortized over 25 years with a fixed interest rate of 7.8%. The loan is secured by the partnership s real property and is non-recourse to SJW Land Company. An amortization schedule of the mortgage loan is as follows:

	Amortization Schedule		
Year	**Total Payment**	**Interest**	**Principal**
2009	410	301	109
2010	410	292	118
2011	3,820	142	3,678

San Jose Water Company has two loans from the SDWSRF at a rate of 2.39% and 2.60%. The outstanding loan balances as of December 31, 2008 is $2,812. San Jose Water Company issued standby letters of credit with a commercial bank in the amount of $3,000 in support of these loans. The letters of credit automatically renew for one year each December unless the issuing bank elects not to renew it. The amount of coverage can be reduced as the principal balances decrease. An amortization schedule of the SDWSRF loans is as follows:

	Amortization Schedule		
Year	**Total Payment**	**Interest**	**Principal**
2009	196	69	127
2010	196	66	130
2011	196	63	133
2012	196	60	136
2013	196	56	140
Thereafter	2,529	383	2,146

The fair value of long-term debt as of December 31, 2008 and 2007 was approximately $206,845 and $238,005, respectively, using a discounted cash flow analysis, based on the current rates for similar financial instruments of the same duration.

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Note 5. Income Taxes

The components of income tax expense were:

	2008	2007	2006
Current:			
Federal	$ 4,546	10,981	12,157
State	3,409	3,346	3,616
Deferred:			
Federal	6,788	(1,148)	8,768
State	(709)	(630)	2,005
	$ 14,034	12,549	26,546

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

	2008	2007	2006
Expected federal income tax	$ 12,151	11,155	22,795
Increase (decrease) in taxes attributable to:			
State taxes, net of federal income tax benefit	2,061	1,831	3,742
Dividend received deduction	(309)	(313)	(310)
Other items, net	131	(124)	319
	$ 14,034	12,549	26,546

	2008	2007	2006
Income taxes included in operating expenses	$ 13,198	12,549	15,298
Income taxes included in gain on sale of utility property	269		
Income taxes included in gain on sale of real estate investments	567		11,248
	$ 14,034	12,549	26,546

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

	2008	2007
Deferred tax assets:		
Advances and contributions	$ 15,992	15,463
Unamortized investment tax credit	901	