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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2023

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 No. 1-13883

CALIFORNIA WATER SERVICE GROUP

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)
1720 North First Street
San Jose, California
(Address of Principal Executive Offices)

77-0448994
(I.R.S. Employer
Identification No.)

95112
(Zip Code)

(408) 367-8200

(Registrant's Telephone Number, including Area Code)

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

Title of Each Class:	Trading Symbol(s)	Name of Each Exchange on Which Registered:
Common Stock, \$0.01 par value per share	CWT	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

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

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

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

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

Large accelerated Filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was \$1,814 million on June 30, 2023, the last business day of the registrant's most recently completed second fiscal quarter. The valuation is based on the closing price of the registrant's common stock as traded on the New York Stock Exchange.

The Common stock outstanding at February 12, 2024 was 57,675,179 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required to be disclosed in Part III of this report is incorporated by reference from the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on or about May 29, 2024. The proxy statement is expected to be filed no later than 120 days after the end of the fiscal year covered by this report.

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PART I

Item 1. *Business.*

Forward-Looking Statements

This annual report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 (the PSLRA). The forward-looking statements are intended to qualify under provisions of the federal securities laws for “safe harbor” treatment established by the PSLRA. Forward-looking statements in this annual report are based on currently available information, expectations, estimates, assumptions and projections, and our management's beliefs, assumptions, judgments and expectations about us, the water utility industry and general economic conditions. These statements are not statements of historical fact. When used in our documents, statements that are not historical in nature, including words like “will,” “would,” “expects,” “intends,” “plans,” “believes,” “may,” “could,” “estimates,” “assumes,” “anticipates,” “projects,” “progress,” “predicts,” “hopes,” “targets,” “forecasts,” “should,” “seeks,” “indicates,” or variations of these words or similar expressions are intended to identify forward-looking statements. Examples of forward-looking statements in this annual report include, but are not limited to, statements describing our intention, indication or expectation regarding our financial performance, dividends or targeted payout ratio, our expectations, anticipations or beliefs regarding governmental, legislative, judicial, administrative or regulatory timelines, decisions, approvals, authorizations, requirements or other actions, including our 2021 GRC, rate amounts or cost recovery, certain PFAS regulations, and associated impacts, such as our expected or estimated revenue benefit or loss, authorized return on equity, cost of debt and capital structure, expectations regarding regulatory asset and operating revenue recognition, sources of funding or capital requirements, estimates of, or expectations regarding, capital expenditures, funding needs or other capital requirements, obligations, contingencies or commitments, our expectations regarding water sources, our beliefs regarding adequacy of water supplies, our anticipation regarding renewing water supply contracts, and estimated water prices, estimated future amortization expense, estimates relating to our significant accounting policies, such as deferred revenue or assets or refund of advances, our expectations regarding stock-based compensation and estimated contributions to our pension plans and other postretirement benefit plans, our estimated annual effective tax rate and expectations regarding tax benefits, our intentions regarding use of net proceeds from any future equity or debt issuances or borrowings or our intentions or anticipations regarding our sources of funding, capital structure or capital allocation plans. The forward-looking statements are not guarantees of future performance. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward-looking statement.

Factors which may cause actual results to be different than those expected or anticipated include, but are not limited to:

- the outcome and timeliness of regulatory commissions' actions concerning rate relief and other matters, including with respect to our 2021 GRC;
- changes in regulatory commissions' policies and procedures, such as the California Public Utilities Commission (CPUC)'s decision in 2020 to preclude companies from proposing fully decoupled WRAMs (which impacted our 2021 GRC);
- our ability to collect eligible customer arrearages and program administrative costs under the California Extended Water and Wastewater Arrearages Payment Program;
- our ability to invest or apply the proceeds from the issuance of common stock in an accretive manner;
- governmental and regulatory commissions' decisions, including decisions on proper disposition of property;
- consequences of eminent domain actions relating to our water systems;
- increased risk of inverse condemnation losses as a result of climate change and drought;
- changes in California State Water Resources Control Board water quality standards;
- changes in environmental compliance and water quality requirements;
- electric power interruptions, especially as a result of Public Safety Power Shutoff (PSPS) programs;
- availability of water supplies;
- housing and customer growth;
- the impact of opposition to rate increases;

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- our ability to recover costs;
- our ability to renew leases to operate water systems owned by others on beneficial terms;
- issues with the implementation, maintenance or security of our information technology systems;
- civil disturbances or terrorist threats or acts;
- the adequacy of our efforts to mitigate physical and cyber security risks and threats;
- the ability of our enterprise risk management processes to identify or address risks adequately;
- labor relations matters as we negotiate with the unions;
- changes in customer water use patterns and the effects of conservation, including as a result of drought conditions;
- our ability to complete, in a timely manner or at all, successfully integrate, and achieve anticipated benefits from announced acquisitions;
- the impact of weather, climate change, natural disasters, and actual or threatened public health emergencies, including disease outbreaks, on our operations, water quality, water availability, water sales and operating results and the adequacy of our emergency preparedness;
- restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends;
- risks associated with expanding our business and operations geographically;
- the impact of stagnating or worsening business and economic conditions, including inflationary pressures, general economic slowdown or a recession, increasing interest rates, instability of certain financial institutions, changes in monetary policy, adverse capital markets activity or macroeconomic conditions as a result of geopolitical conflicts, and the prospect of a shutdown of the U.S. federal government;
- the impact of market conditions and volatility on unrealized gains or losses on our non-qualified benefit plan investments and our operating results;
- the impact of weather and timing of meter reads on our accrued unbilled revenue;
- the impact of evolving legal and regulatory requirements, including emerging environmental, social and governance requirements; and
- the risks set forth in “Risk Factors” included elsewhere in this annual report.

In light of these risks, uncertainties and assumptions, investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this annual report or as of the date of any document incorporated by reference in this annual report, as applicable. When considering forward-looking statements, investors should keep in mind the cautionary statements in this annual report and the documents incorporated by reference. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

California Water Service Group (Company) is a holding company with seven operating subsidiaries: California Water Service Company (Cal Water), New Mexico Water Service Company (New Mexico Water), Washington Water Service Company (Washington Water), Hawaii Water Service Company, Inc. (Hawaii Water), TWSC, Inc. (Texas Water), and CWS Utility Services and HWS Utility Services LLC (CWS Utility Services and HWS Utility Services LLC being referred to collectively in this annual report as Utility Services). Cal Water, New Mexico Water, Washington Water, and Hawaii Water are regulated public utilities. Texas Water is a holding company with regulated and contracted wastewater utilities.

The regulated utility entities also provide some non-regulated services. Utility Services holds non-utility property and provides non-regulated services to private companies and municipalities outside of California (see "Non-Regulated Activities" below for more details). Cal Water was the original operating company that began operations in 1926.

Our business is conducted through our operating subsidiaries and we provide utility services to approximately two million people. The bulk of the business consists of the production, purchase, storage, treatment, testing, distribution, and sale of water for domestic, industrial, public, and irrigation uses, and the provision of domestic and municipal fire protection services. In some areas, we provide wastewater collection and treatment services, including treatment which allows water recycling. We also provide non-regulated water-related services under agreements with municipalities and other private companies. The non-regulated services include full water system operation, meter reading, and billing services. Non-regulated operations also include the lease of communication antenna sites, lab services, and promotion of other non-regulated services.

During the year ended December 31, 2023, there were no significant changes in the kind of products produced or services rendered by our operating subsidiaries, or in the markets or methods of distribution.

Our mailing address and contact information is:

California Water Service Group
1720 North First Street
San Jose, California 95112-4598
Telephone number: 408-367-8200
www.calwatergroup.com

Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports are available free of charge through our website at www.calwatergroup.com. The reports are available on our website as soon as reasonably practicable after such reports are filed with the SEC.

The content on any website referred to in this annual report is not incorporated by reference in this annual report unless expressly noted.

Regulated Business

California water operations are conducted by Cal Water, which provides service to approximately 497,700 customer connections in approximately 100 California communities through 21 separate districts, which are subject to regulation by the CPUC. California water operations accounted for approximately 89.5% of our total customer connections and 90.6% of our total consolidated operating revenue in 2023.

We operate the City of Hawthorne and the City of Commerce water systems under lease agreements. In accordance with the lease agreements, we receive all revenues from operating the systems and are responsible for paying the operating costs. The City of Hawthorne and the City of Commerce lease revenues are governed through their respective city councils and are considered non-regulated because they are outside of the CPUC's jurisdiction. We report revenue and expenses for the City of Hawthorne and City of Commerce leases in operating revenue and operating expenses because we are entitled to retain all customer billings and are responsible for all operating expenses. These leases are considered "nontariffed products and services" (NTPS) by the CPUC and require a 10% revenue sharing with regulated customers.

In October of 2011, an agreement was negotiated with the City of Hawthorne to lease and operate its water system. The system, which is located near the Hermosa Redondo district, serves about half of Hawthorne's population. The capital lease agreement required an up-front \$8.1 million lease deposit to the city that is being amortized over the lease term. Additionally, annual lease payments are contracted to be adjusted based on changes in rates charged to customers. Under the lease, we are responsible for all aspects of system operation and capital improvements, although title to the system and system improvements reside with the city. Capital improvements are recorded as depreciable plant and equipment and depreciated per the asset lives set forth in the agreement. In exchange, we receive all revenue from the water system, which was \$12.2 million, \$12.5 million, and \$11.4 million in 2023, 2022, and 2021, respectively. At the end of the lease, the city is required to reimburse us for the unamortized value of capital improvements made during the term of the lease. The City of Hawthorne capital lease is a 15-year lease and expires in 2026.

In April of 2018, a renewal agreement was negotiated with the City of Commerce for us to continue to lease and to operate its water system for 15 years. Under the agreement, the operating lease requires us to pay \$0.8 million per year in monthly installments. We have operated the City of Commerce water system since 1985 and are responsible for all operations, maintenance, water quality assurance, customer service programs, and financing capital improvements to provide a reliable supply of water that meets federal and state standards to customers served by the City of Commerce system. The City of Commerce retains title to the system and system improvements and remains responsible for setting its customers' water rates. We bear the risks of operation and collection of amounts billed to customers. In exchange, we receive all revenue from the water system, which was \$4.2 million, \$4.2 million, and \$3.4 million in 2023, 2022, and 2021, respectively. The agreement allows us to request a rate change annually in order to recover costs.

Hawaii Water provides service to approximately 6,500 water and wastewater customer connections on the islands of Kauai, Maui, Oahu, and Hawaii, including several large resorts and condominium complexes. Hawaii Water's regulated customer connections are subject to the jurisdiction of the Hawaii Public Utilities Commission (HPUC). Hawaii Water accounted for 1.2% of our total customer connections and approximately 5.2% of our total consolidated operating revenue in 2023.

Washington Water provides domestic water service to approximately 38,000 customer connections in the Tacoma, Olympia, Graham, Spanaway, Puyallup, Rainier, Yelm, and Gig Harbor areas. Washington Water's utility operations are regulated by the Washington Utilities and Transportation Commission (UTC). Washington Water accounted for approximately 6.8% of our total customer connections and approximately 3.0% of our total consolidated operating revenue in 2023.

New Mexico Water provides service to approximately 11,400 water and wastewater customer connections in our Rio Communities, Rio Del Oro, Meadow Lake, Indian Hills, Squaw Valley, Elephant Butte, Morningstar, Sandia Knolls, Juan Tomas, and Cypress Gardens systems. New Mexico's regulated operations are subject to the jurisdiction of the New Mexico Public Regulation Commission (NMPRC). New Mexico Water accounted for approximately 2.0% of our total customer connections and 0.9% of our total consolidated operating revenue in 2023.

In May of 2021, Texas Water became the majority owner of BVRT Utility Holding Company (BVRT), a Texas-based utility development company owning and operating four wastewater utilities serving growing communities outside of Austin and San Antonio. Texas Water initially invested funds to enable BVRT to continue to build wastewater infrastructure and converted its investment to equity. BVRT's four wastewater utilities currently serve or are under contract to serve approximately 2,800 customer connections. On August 16, 2022, BVRT entered into a long-term water supply agreement with the Guadalupe Blanco River Authority (GBRA) that enables BVRT to receive up to 2,419 acre-feet of potable water annually (see Note 14 for more details). Texas Water accounted for approximately 0.5% of our total customer connections and 0.3% of our total consolidated operating revenue in 2023.

The state regulatory bodies governing our regulated operations are referred to as the Commissions in this annual report. Rates and operations for regulated customers are subject to the jurisdiction of the respective state's regulatory Commission. The Commissions require that water and wastewater rates for each regulated district are independently determined based on the cost of service. The Commissions are expected to authorize rates sufficient to recover normal operating expenses and allow the utility to earn a fair and reasonable return on invested capital.

We treat and distribute water and treat wastewater in accordance with accepted water utility methods. Where applicable, we hold franchises and permits in the cities and communities where we operate. The franchises and permits allow us to operate and maintain facilities in public streets and rights-of-way as necessary.

Non-Regulated Activities

Non-regulated activities consist primarily of the operation of water systems that are owned by other entities under lease agreements, leasing of communication antenna sites on our properties, and billing of optional third-party insurance programs to our residential customers.

Fees for non-regulated activities are based on contracts negotiated between the parties. Under our non-regulated contract arrangements, we operate municipally owned water systems and privately owned water and recycled water distribution systems, but are not responsible for all operating costs. Non-regulated revenue received from non-leased water system operations is generally determined on a fee-per-customer basis.

In California, nearly all non-regulated activities are considered NTPS. The prescribed accounting for these NTPS is incremental cost allocation plus revenue sharing with regulated customers. Non-regulated services determined to be "active activities" require a 10% revenue sharing, and "passive activities" require a 30% revenue sharing. The amount of non-regulated revenues subject to revenue sharing is the total billed revenues less any authorized pass-through costs. Some examples of CPUC authorized pass-through costs are purchased water, purchased power, and pump taxes. All of our non-regulated services, except for leasing communication antenna sites on our properties, are "active activities" subject to a 10% revenue sharing. Leasing communication antenna sites on our properties are "passive activities" subject to a 30% revenue sharing. Cal Water's annual revenue sharing with regulated customers was \$2.7 million, \$2.7 million, and \$3.1 million in 2023, 2022, and 2021, respectively.

Operating Segment

We operate in one reportable segment, the supply and distribution of water and providing water-related utility services. For information about revenue from external customers, net income attributable to California Water Service Group and total assets, see "Item 8. Financial Statements and Supplementary Data."

Growth

We intend to continue exploring opportunities to expand our regulated and non-regulated water and wastewater activities, particularly in the western United States. The opportunities could include system acquisitions, lease arrangements similar to the City of Hawthorne and City of Commerce contracts, utility development investments similar to the BVRT investment, full service system operation and maintenance agreements, meter reading, billing contracts, customer service functions, and other utility-related services.

Geographical Service Areas and Number of Customer Connections at Year-end

Our principal markets are users of water within our service areas. The approximate number of customer connections served in each regulated district, the City of Hawthorne and the City of Commerce, at December 31 is as follows:

	2023	2022
(rounded to the nearest hundred)		
SAN FRANCISCO BAY AREA/NORTH COAST		
Bay Area Region (serving South San Francisco, Colma, Broadmoor, San Mateo, San Carlos, Lucerne, Duncans Mills, Guerneville, Dillon Beach, Noel Heights and portions of Santa Rosa)	56,000	56,000
Bear Gulch (serving portions of Menlo Park, Atherton, Woodside and Portola Valley)	19,100	19,000
Los Altos (including portions of Cupertino, Los Altos Hills, Mountain View and Sunnyvale)	19,000	19,000
Livermore	19,000	19,000
	<u>113,100</u>	<u>113,000</u>
SACRAMENTO VALLEY		
Chico (including Hamilton City)	31,500	31,300
Oroville	3,700	3,700
Marysville	3,800	3,800
Dixon	3,100	3,100
Willows	2,400	2,400
	<u>44,500</u>	<u>44,300</u>
SALINAS VALLEY		
Salinas Valley Region (including Salinas and King City)	31,800	31,700
	<u>31,800</u>	<u>31,700</u>
SAN JOAQUIN VALLEY		
Bakersfield	74,400	74,100
Stockton	45,200	45,200
Visalia	48,700	48,100
Selma	6,600	6,600
Kern River Valley	4,000	4,100
	<u>178,900</u>	<u>178,100</u>
LOS ANGELES AREA		
East Los Angeles	26,900	27,000
Hermosa Redondo (serving Hermosa Beach, Redondo Beach and a portion of Torrance)	27,300	27,200
Dominguez (Carson and portions of Compton, Harbor City, Long Beach, Los Angeles and Torrance)	34,500	34,400
Los Angeles County Region (including Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates, Rolling Hills, Fremont Valley, Lake Hughes, Lancaster and Leona Valley)	26,000	25,900
Westlake (a portion of Thousand Oaks)	7,100	7,100
Hawthorne and Commerce (leased municipal systems)	7,600	7,700
	<u>129,400</u>	<u>129,300</u>
CALIFORNIA TOTAL	497,700	496,400
HAWAII	6,500	6,200
NEW MEXICO	11,400	10,700
WASHINGTON	38,000	37,500
TEXAS	2,800	2,200
COMPANY TOTAL	<u>556,400</u>	<u>553,000</u>

Rates and Regulation

The Commissions have plenary powers setting both rates and operating standards. As such, the Commissions' decisions significantly impact the Company's revenues, earnings, and cash flows. The amounts discussed herein are generally annual amounts, unless otherwise stated, and the financial impact to recorded revenue is expected to occur over a 12-month period from the effective date of the decision. In California, water utilities are required to make several different types of filings. Certain filings, such as General Rate Case (GRC) filings, escalation rate increase filings, and offset filings, may result in rate changes that generally remain in place until the next GRC. As explained below, surcharges and surcredits to recover balancing and memorandum accounts as well as GRC interim rate relief are temporary rate changes, having specific time frames for recovery.

The CPUC follows a rate case plan which requires Cal Water to file a GRC for each of its regulated operating districts (except Grand Oaks, which is filed as needed) every three years. In a GRC proceeding, the CPUC not only considers the utility's rate setting requests, but may also consider other issues that affect the utility's rates and operations. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates and an Interim Rates Memorandum Account (IRMA). In accordance with the rate case plan, Cal Water filed its most recent GRC filing in July of 2021 (2021 GRC) requesting rate changes effective January 1, 2023. For additional information on our 2021 GRC, see "Regulatory Activity - California".

Between GRC filings, Cal Water may file escalation rate increases, which allow Cal Water to recover cost increases, primarily from inflation and incremental investments, generally during the second and third years of the rate case cycle. However, escalation rate increases are district specific and subject to an earnings test. The CPUC may reduce a district's escalation rate increase if, in the most recent 13-month period, the earnings test reflects earnings in excess of what was authorized for that district.

In addition, California water utilities are entitled to make offset requests via advice letter. Offsets may be requested to adjust revenues for construction projects authorized in GRCs or recycled water projects when those capital projects go into service (these filings are referred to as "rate base offsets"), or for rate changes charged to Cal Water for purchased water, purchased power, and pump taxes (which are referred to as "expense offsets"). Rate changes approved in offset requests remain in effect until the next GRC is approved.

In pursuit of the State of California's water conservation goals, the CPUC decoupled Cal Water's revenue requirement from customer consumption levels in 2008 by authorizing a Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) for each district. The WRAM and MCBA were designed to ensure that Cal Water recovers revenues authorized by the CPUC regardless of customer consumption. This removed the historical disincentive against promoting lower water usage among customers. Through an annual advice letter filing, Cal Water can seek to recover any under-collected metered revenue amounts authorized, or refund over-collected metered revenues, via surcharges and surcredits. The advice letters generally have been filed in April of each year and addressed the net WRAM and MCBA balances recorded for the previous calendar year. The majority of WRAM and MCBA balances have been collected or refunded through surcharges/surcredits over 12 and 18 month periods. The WRAM and MCBA amounts have been cumulative, so if they were not amortized in a given calendar year, the balance was carried forward and included with the following year's balance. Cal Water also had a Sales Reconciliation Mechanism (SRM) in place for 2021 and 2022 (the second and third years of its 2018 GRC), that allowed the company to adjust its adopted sales forecast if actual sales vary from adopted sales by more than 5.0% over the prior year in a district. The SRM moderates the growth of the net WRAM and MCBA balances until the next GRC.

The CPUC issued a decision effective August 27, 2020 requiring that Class A companies submitting GRC filings after the effective date be (i) precluded from proposing the use of a full decoupling WRAM in their next GRCs and (ii) allowed the use of a Monterey-Style Water Revenue Adjustment Mechanism (MWRAM). In addition, the CPUC's decision allowed for Incremental Cost Balancing Accounts (ICBAs) to replace the MCBA. The MWRAM tracks the difference between the revenue received for actual metered sales through the tiered volumetric rate and the revenue that would have been received with the same actual metered sales if a uniform rate had been in effect. The ICBA tracks differences between the authorized per-unit prices of water production costs and actual per-unit prices of water production costs. Cal Water complied with this decision in its 2021 GRC and the MWRAM and ICBAs are expected to be effective retroactive to January 1, 2023 once approved.

In September 2020, Cal Water filed an Application for Rehearing at the CPUC seeking to reverse the August 27, 2020 CPUC decision. In September 2021, the CPUC denied the Application for Rehearing. On or about October 27, 2021, Cal Water along with four other Class A California water utilities filed Petitions for a Writ of Review with the California Supreme Court (Court). On May 18, 2022, the Court issued writs granting review and ordered the CPUC and other filing parties to submit additional pleadings to the Court. The final pleadings were submitted on January 13, 2023. Cal Water anticipates that the Court will schedule an oral argument before it begins deliberations and issues its decision.

Regulatory Activity - California

2021 GRC

On July 2, 2021, Cal Water filed its 2021 GRC requesting water infrastructure improvements of \$1.0 billion in accordance with the rate case plan for all of its regulated operating districts (except Grand Oaks) for the years 2022, 2023, and 2024. Cal Water proposed rate design changes that would improve revenue stability and provide a discounted unit rate for the first six units of water per month for residential customers. This block of usage would be charged at 25% of the second tier rate. As part of the rate design changes, Cal Water has also proposed the use of a MWRAM and ICBA. In the 2021 GRC, Cal Water proposed to the CPUC to increase revenues by \$80.5 million, or 11.1%, in 2023; \$43.6 million, or 5.4%, in 2024; and \$43.2 million, or 5.1%, in 2025 to support these investments.

On January 24, 2024, the assigned CPUC Administrative Law Judges (ALJs) issued a proposed decision (PD) on the litigated 2021 GRC, and concurrently, the assigned CPUC Commissioner issued an alternate proposed decision (APD) opposing and modifying certain decisions made by the ALJs. The PD issued by the ALJs was closer aligned to Cal Water's requested revenue requirement whereas the APD issued by the assigned Commissioner was closer aligned to the Public Advocates' requested revenue requirement. On February 13, 2024, Cal Water filed a request to change several elements in the PD and APD, including correction of possible 2021 GRC technical issues. We are unable to determine which of the two proposed decisions will be adopted by the CPUC, or if a second alternate proposed decision will be issued by the CPUC. As a result of the uncertainty of the decision that will ultimately be made by the CPUC, we are unable to reasonably estimate the impact on 2023 operating revenue and expenses. The 2021 GRC cumulative adjustment plus interest which is retroactive to January 1, 2023, will be recorded when the final decision is issued by the CPUC.

2021 GRC Interim Rates and IRMA

In June of 2022, Cal Water filed a motion requesting authority to increase rates by inflation on January 1, 2023 and for the establishment of an IRMA in the event the CPUC did not issue a final decision for the 2021 GRC in time for new rates to be implemented on January 1, 2023. In November of 2022, the ALJ assigned to evaluate the motion granted Cal Water's request for the IRMA but did not authorize the inflation rate increase. The IRMA tracks the difference between the current rates that continue to be billed starting January 1, 2023 (considered to be interim rates), and the rates that will eventually be approved pursuant to the CPUC's decision concerning Cal Water's 2021 GRC plus any additional revenue changes approved since July 1, 2021 (final rates). After the CPUC's decision is issued and final rates are implemented, we would then expect the balance in the IRMA to be reviewed, and customer bills to be adjusted to account for the difference between interim rates and final rates back to January 1, 2023.

In January of 2023, Cal Water filed a motion requesting a modification to the November 2022 ruling on inflationary rate increases. In the motion, Cal Water requested inflationary rate increases of 1.5% in Marysville and 4% for all other ratemaking areas besides Selma, Travis Air Force Base, and Visalia for whom a rate increase was not requested. In February of 2023, the ALJ granted Cal Water's request. Cal Water implemented the increased interim inflation rates on May 5, 2023.

2021 Cost of Capital Application

On May 3, 2021, after an approved extension from a 2020 due date, Cal Water filed its required application with the CPUC to review its cost of capital for 2022 through 2024 (2021 Cost of Capital Application). At the time of filing, Cal Water had an approved return on equity of 9.2%, a cost of debt of 5.51%, and a capital structure of 53.4% equity and 46.6% debt. Cal Water requested a return on equity of 10.35%, a cost of debt of 4.23%, and a capital structure of 53.4% equity and 46.6% debt. The California Public Advocates Office recommended a return on equity of 7.81%, a cost of debt of 4.23%, and a capital structure of 49.4% equity and 50.6% debt. Evidentiary hearings were held in May 2022 and the case was submitted to the CPUC at the end of the second quarter of 2022. In the second quarter of 2023, the CPUC issued and adopted a proposed decision for the 2021 Cost of Capital Application. Cal Water was authorized a return on equity of 9.05%, a cost of debt of 4.23%, a capital structure of 53.4% equity and 46.6% debt, and an authorized rate of return of 6.80% for 2023 and 2024. The CPUC also reauthorized the Water Cost of Capital Mechanism (WCCM), which automatically adjusts the rate of return when the Moody's Utilities Bond Index (Index) fluctuates between cost of capital applications. Because the Index changed in 2022, the WCCM triggered for 2023. Cal Water implemented new rates based on an authorized 9.57% return on equity, with a 4.23% cost of debt, and an authorized rate of return of 7.08% on July 31, 2023. The 40 basis-point reduction from Cal Water's prior rate of return of 7.48% lowered adopted annual operating revenue as of July 31, 2023 by \$7.0 million and is subject to change based on finalization of the 2021 GRC.

In October of 2023, Cal Water evaluated the WCCM for 2024 and determined that it was triggered due to a change in the Index in 2023. Cal Water filed an advice letter to implement new rates based on an authorized 10.27% return on equity, with a 4.23% cost of debt, and an authorized rate of return of 7.46% effective January 1, 2024. These new rates were implemented on January 1, 2024. We currently expect that the 38 basis-point increase from Cal Water's rate of return for the period July 31, 2023 to December 31, 2023 of 7.08% will positively impact adopted annual operating revenue for 2024 by approximately \$10.0 million. This estimate is subject to change based on finalization of the 2021 GRC.

On February 2, 2024, Cal Water received a letter from the CPUC addressed jointly to Cal Water and three other Class A water companies granting their request for a one-year extension in their next cost of capital filing with the CPUC to May 1, 2025. The WCCM will remain in effect during the one-year extension. As a result, Cal Water's authorized return on equity in 2025 is expected to be 10.27% plus or minus any changes from the WCCM.

2023 Financing Application for California

On October 6, 2023, Cal Water filed a financing application with the CPUC requesting authority to issue up to \$1.3 billion of new equity and debt securities, in addition to previously-authorized amounts, to finance water system infrastructure investments in 2024, 2025, and 2026. Cal Water also seeks a continuation of its existing waiver that authorizes each Cal Water borrowing under its revolving credit arrangements to be payable at periods up to twenty-four months from the date of the applicable borrowing, rather than the twelve-month period currently permitted for short-term borrowings.

Expense Offset Requests

Expense offsets are dollar-for-dollar increases in revenue to match increased expenses, and therefore do not affect net operating income. In December of 2022, Cal Water submitted an advice letter to request offsets for increases in purchased water costs and pump taxes in five of its regulated districts totaling \$5.1 million. The new rates were implemented on January 1, 2023.

In July of 2023, Cal Water submitted an advice letter to request offsets for increases in purchased water costs, pump taxes, and purchased power costs in 11 of its regulated districts totaling \$24.6 million. The new rates were implemented on July 31, 2023.

In November of 2023, Cal Water submitted an advice letter to request offsets for increases in purchased water costs and pump taxes in six of its regulated districts totaling \$5.1 million. The new rates were implemented on January 1, 2024.

WRAM/MCBA Filings

In April and July of 2023, Cal Water submitted advice letters to true up the revenue under-collections for the 2022 annual WRAMs/MCBAs of its regulated districts. A net under-collection of \$76.6 million is being recovered from customers in the form of 12, 18, and greater-than-18-month surcharges. The new surcharges incorporate net WRAM/MCBA balances that were previously approved for recovery and were implemented on May 5, 2023, except for Kern River Valley's surcharge, which was implemented on January 15, 2024. The balance also includes \$1.5 million of settlement proceeds from a settled lawsuit with the Stockton East Water District related to purchased water in Stockton. Cal Water intends to pass on this benefit to its Stockton customers through a reduction of its net WRAM receivable.

California Drought Memorandum Account (DRMA)

In June 2021, Cal Water submitted advice letters to request a DRMA to track the incremental operational and administrative costs incurred to further implement updated Rule 14.1 for voluntary conservation measures and Schedule 14.1 for implementation of our Water Shortage Contingency Plan, including activities related to enhanced conservation efforts, staffing, and capital expenditures to ensure a safe, reliable water supply. The DRMA would also track monies paid by customers for fines, penalties, or other compliance measures associated with water use violations; and penalties paid by Cal Water to its water wholesalers. The DRMA was approved by the CPUC with an effective date of June 14, 2021. As of December 31, 2023, Cal Water has incurred \$2.1 million of cumulative DRMA related costs, of which \$0.8 million was incurred in 2023.

California's Governor issued a drought declaration for all California counties through a series of State of Emergency Proclamations with the most recent in March 2022. Given these drought proclamations and then-existing water usage levels in all of its service areas, in 2022 Cal Water activated Stage 2 of the "Water Use Restrictions of its Water Shortage Contingency Plan" (WSCP) of Schedule 14.1 in all of its service areas; as a result, Cal Water saw an increase in DRMA related costs in 2022 and 2023.

In Stage 1, irrigating ornamental landscape with potable water is prohibited during the hours of 8:00 a.m. and 6:00 p.m. For Stage 2, irrigating ornamental landscapes with potable water is limited to no more than three days per week as well as prohibited during the hours of 8:00 a.m. and 6:00 p.m. In addition, this stage states that new connections may not install single-pass cooling systems for air conditioning or other cooling system applications unless required for health or safety reasons.

On March 24, 2023, the Governor issued an Executive Order (EO) that, among other things, ended the voluntary 15% water conservation target and ended the requirement that local water agencies implement Stage 2 of their drought contingency plans. This EO maintained the ban on wasteful water uses and retained the State of Emergency for all 58 California counties to allow for drought response and recovery efforts to continue.

On May 8, 2023, Cal Water deactivated Stage 2 and moved to Stage 1 of Cal Water's Schedule 14.1 in all regulated service areas.

On July 28, 2023, Cal Water submitted a Tier 3 advice letter requesting authority to amortize \$1.4 million of incremental expenses incurred from June 14, 2021 to December 31, 2022 tracked in the DRMA. The effective date of the advice letter is uncertain as Tier 3 advice letters require a resolution to be adopted by the CPUC.

Drought Response Memorandum Account (DREMA)

In December of 2022, Cal Water received approval for a DREMA to track lost revenues, for potential future recovery, associated with reduced sales as a result of the activation of Rule 14.1 and Schedule 14.1 of its WSCP in all of its service territories. The request is consistent with the CPUC's drought procedures which allow companies without full decoupling mechanisms to track lost revenues, subject to a 20 basis points return on equity adjustment, associated with the reduced sales as a result of the activation of either Rule 14.1 or Schedule 14.1. As Cal Water's full decoupling mechanisms ended on December 31, 2022, the DREMA became effective as of January 1, 2023.

Polyfluoroalkyl Substances Memorandum Account (PFAS MA)

Public water systems have been ordered by the State Water Resources Control Board to detect, monitor, and report perfluorooctanoic and perfluorooctanesulfonic acid in drinking water. In the third quarter of 2020, the CPUC approved the PFAS MA which allows Cal Water to track incremental expenses related to compliance with the order. The tracking of capital costs was excluded due to the current lack of a maximum contaminant level (MCL).

In March of 2023, the United States Environmental Protection Agency (EPA) issued proposed MCLs for six per- and polyfluoroalkyl substances (PFAS). In September of 2023, Cal Water filed an application with the CPUC to modify the PFAS MA to track capital related costs associated with activities necessary to comply with the proposed PFAS drinking water regulations. Cal Water also proposed to submit Tier 2 advice letters requesting authority to add completed PFAS-related capital projects to authorized rate base.

2018 GRC Conservation Expense Balancing Account (CEBA) Filing

In March of 2023, Cal Water submitted an advice letter to amortize the CEBA from the 2018 GRC that tracked the difference between adopted and actual conservation program costs for the period of 2020-2022. \$6.2 million is being refunded to customers in some districts in the form of one-time or 12-month surcredits as actual conservation program costs during 2020-2022 were lower than the adopted conservation program costs. The new surcredits were implemented on May 5, 2023.

2018 GRC Health Cost Balancing Account (HCBA) and Pension Cost Balancing Account (PCBA) Filing

In June of 2023, Cal Water submitted an advice letter to amortize the HCBA and PCBA from the 2018 GRC that tracked the difference between adopted and actual costs for the period of 2020-2022. For the HCBA, \$14.0 million is expected to be refunded to customers in the form of one-time or 12-month surcredits as actual employee and retiree medical costs during 2020-2022 were lower than the adopted employee and retiree medical costs. For the PCBA, \$17.4 million is expected to be recovered from customers in the form of one-time or 12-month surcharges as actual costs for employee pension benefits during 2020-2022 were higher than the adopted employee pension benefit costs. The new rates were implemented on July 31, 2023.

City of Hawthorne GRC Filing

In June of 2023, the City of Hawthorne approved Cal Water's water rate increase proposal for 2023-2026. Cal Water was approved to increase total revenue by \$0.9 million incrementally over four years. Revenue is scheduled to increase by 1.5% in 2023, 1.9% in 2024, 1.6% in 2025, and 2.3% in 2026. The 2023 increase was implemented on July 1, 2023. Cal Water was also approved to establish a Full Cost Balancing Account to track differences between adopted and actual water production costs.

Palos Verdes Peninsula Water Reliability Project (Project)

In 2002, Cal Water commissioned a Water System Master Plan (Master Plan) for the Palos Verdes water system. The Master Plan identified the high-priority need to augment the existing potable water system with new transmission mains and a new pump station to improve the capacity and reliability of the water system. This resulted in the development of a capital project known as the Project. Before the Project, a single pipeline that is over 60 years old delivered potable water to approximately 90 percent of the Peninsula, and a second pipeline of the same age delivered water to the remaining 10 percent. Both of these pipelines were approaching the end of their useful lives.

The CPUC authorized Cal Water to recover revenue associated with costs up to a cap of \$96.1 million after the Project was in service, subject to the CPUC's reasonableness review. In 2020, the Project was completed and Advice Letter 2387 was filed asking for authority to increase rates reflecting the Project costs up to the cap, with an effective date of August 27, 2020. The advice letter was approved on January 29, 2021. New rates were implemented on February 1, 2021, with the revenue requirement being effective as of August 27, 2020.

Due to the complexity of the Project, total project costs exceeded the advice letter cap of \$96.1 million. Total project costs incurred as of the end of 2023 were \$117.2 million. Amongst other things, the 2021 GRC requested an additional \$6.4 million of capital costs to be included in base rates plus authority to open a memorandum account allowing Cal Water to track incremental capital-related costs associated with this project. The remaining \$14.7 million of capital costs not in base rates will be applied for in a future rate proceeding or tracked in the memorandum account for possible future recovery.

Regulatory Activity - Other States

2023 Washington Water GRC (Washington Water)

On April 10, 2023, Washington Water filed a GRC application with the UTC requesting an annual revenue increase of \$3.0 million for its East Pierce water system phased in over two years and an annual revenue increase of \$0.6 million for its legacy Washington Water system. In July of 2023, the UTC approved an annual revenue increase of \$2.1 million. Washington Water implemented the new rates on July 28, 2023.

Pukalani GRC (Hawaii Water)

On October 30, 2023, HPUC approved Pukalani's GRC application that was filed in 2022. The approval increased annual revenues by \$0.4 million to be implemented at \$0.2 million each year for the next two years. The new rates were implemented on December 1, 2023.

HOH Utilities Company (Hawaii Water)

In December of 2023, Hawaii Water closed on the acquisition of assets of HOH Utilities Company, a wastewater utility located in the growing Poipu/Koloa area of Kauai County on the island of Kauai.

The acquisition of HOH Utilities Company's wastewater system assets added 1,800 residential, commercial and resort customers, including three hotels, condominiums, multi-family housing, single-family homes and a golf course to the customer base of Hawaii Water.

Kaanapali GRC (Hawaii Water)

On February 1, 2024, Hawaii Water filed a GRC application with the HPUC requesting an annual revenue increase of \$0.6 million. Hawaii Water is requesting a fourth quarter of 2024 effective date for new rates.

Water Supply

Our source of supply varies among our operating districts. Certain districts obtain all of their supply from wells; some districts purchase all of their supply from wholesale suppliers; and other districts obtain supply from a combination of wells and wholesale suppliers. A small portion of supply comes from surface sources and is processed through Company-owned water treatment plants. To the best of management's knowledge, we are meeting water quality, environmental, and other regulatory standards for all Company-owned systems.

Historically, approximately half of our annual water supply is pumped from wells. State groundwater management agencies operate differently in each state. Some of our wells extract ground water from water basins under state ordinances. These are adjudicated groundwater basins, in which a court has settled the dispute between landowners, or other parties over how much annual groundwater can be extracted by each party. All of our adjudicated groundwater basins are located in the State of California. Our annual groundwater extraction from adjudicated groundwater basins approximates 6.7 billion gallons or 13.1% of our total annual water supply pumped from wells. Historically, we have extracted less than 100% of our annual adjudicated groundwater rights and have the right to carry forward up to 20% of the unused amount to the next annual period. All of our remaining wells extract ground water from managed or unmanaged water basins. There are no set limits for the ground water extracted from these water basins. Our annual groundwater extraction from managed groundwater basins approximates 29.7 billion gallons or 57.6% of our total annual water supply pumped from wells. Our annual groundwater extraction from unmanaged groundwater basins approximates 15.1 billion gallons or 29.3% of our total annual water supply pumped from wells. Most of the managed groundwater basins we extract water from have groundwater recharge facilities. We are required to financially support these groundwater recharge facilities by paying well pump taxes. Our well pump taxes for 2023, 2022, and 2021 were \$19.0 million, \$16.2 million, and \$15.3 million, respectively. In 2014, the State of California enacted the Sustainable Groundwater Management Act of 2014 (SGM Act). The law and its implementing regulations required most basins to select a sustainability agency by 2017, develop a sustainability plan by the end of 2022, and show progress toward sustainability by 2027. We expect that after the SGM Act's provisions are fully implemented, substantially all the Company's California groundwater will be produced from sustainably managed and adjudicated basins.

California's normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water's rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Typically water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months in California replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. As of February 22, 2024, the State of California snowpack water content during the 2023-2024 water year was 99% of long-term averages (per the California Department of Water Resources, Northern Sierra Precipitation Accumulation report). The northern Sierra region is the most important for the state's urban water supplies. The central and southern portions of the Sierras have recorded 82% and 80%, respectively, of long-term averages. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2024 and thereafter. Long-term water supply plans are developed for each of our districts to help assure an adequate water supply under various operating and supply conditions. Some districts have unique challenges in meeting water quality standards, but management believes that supplies will meet current standards using currently available treatment processes.

On May 31, 2018, California's Governor signed two bills (Assembly Bill 1668 and Senate Bill 606) into law that were intended to establish long-term standards for water use efficiency. The bills revise and expand the existing urban water management plan requirements to include five-year drought risk assessments, water shortage contingency plans, and annual water supply/demand assessments. The California State Water Resources Control Board, in conjunction with the California Department of Water Resources, is expected to establish long-term water use standards for indoor residential use, outdoor residential use, water losses, and other uses. Cal Water will also be required to calculate and report on its urban water use targets by November 1 of each year, that compares actual urban water use to the targets. Management believes that Cal Water is well positioned to comply with all such regulations.

In March of 2023, the EPA issued proposed MCLs for six PFAS. Based on current information, if the regulation is adopted in its current form, we expect that we would have three years to comply with the final PFAS regulations and we estimate that capital investments of approximately \$215.0 million would be required to comply.

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The following table shows the estimated quantity of water purchased and the percentage of purchased water to total water production in each California operating district that purchased water in 2023. Other than noted below, all other districts receive 100% of their water supply from wells.

District	Water Purchased (MG)	Percentage of Total Water Production	Source of Purchased Supply
SAN FRANCISCO BAY AREA/NORTH COAST			
Bay Area Region*	6,275	98.9 %	San Francisco Public Utilities Commission and Yolo County Flood Control & Water Conservation District
Bear Gulch	3,561	100.0 %	San Francisco Public Utilities Commission
Los Altos	2,147	63.6 %	Valley Water
Livermore	1,777	67.5 %	Alameda County Flood Control and Water Conservation District, Zone 7
SACRAMENTO VALLEY			
Oroville	668	89.7 %	Pacific Gas and Electric Co. and County of Butte
SAN JOAQUIN VALLEY			
Bakersfield	9,811	55.0 %	Kern County Water Agency and City of Bakersfield
Stockton	6,462	88.9 %	Stockton East Water District
LOS ANGELES AREA			
East Los Angeles	586	14.0 %	Central Basin Municipal Water District
Dominguez	8,108	78.4 %	West Basin Municipal Water District and City of Torrance
City of Commerce	361	49.5 %	Central Basin Municipal Water District
City of Hawthorne	1,059	89.1 %	West Basin Municipal Water District
Hermosa Redondo	2,901	90.2 %	West Basin Municipal Water District
Los Angeles County Region**	4,451	97.0 %	West Basin Municipal Water District and Antelope Valley-East Kern Water Agency
Westlake	1,794	100.0 %	Calleguas Municipal Water District and Triunfo Water and Sanitation District
Kern River Valley	53	22.8 %	City of Bakersfield

MG = million gallons

* Bay Area Region includes Bayshore and Redwood Valley

** Los Angeles County Region includes Palos Verdes and Antelope Valley

The Bear Gulch district obtains a portion of its water supply from surface runoff from the local watershed. The Oroville district in the Sacramento Valley, the Bakersfield district in the San Joaquin Valley, and the Kern River Valley district in the Los Angeles Area purchase water from a surface supply. Surface sources are processed through our water treatment plants before being delivered to the distribution system. The Bakersfield district also purchases treated water as a component of its water supply.

The Chico, Marysville, Dixon, and Willows districts in the Sacramento Valley, the Salinas Valley Region district in the Salinas Valley, the Selma and Visalia districts in the San Joaquin Valley, and the Travis Air Force Base in Solano County obtain their entire supply from wells.

Purchases for the Los Altos, Livermore, Oroville, Redwood Valley, Stockton, and Bakersfield districts are pursuant to long-term contracts expiring on various dates after 2023. The water supplies purchased for the Dominguez, East Los Angeles, Hermosa Redondo, Palos Verdes, and Westlake districts as well as the Hawthorne and Commerce systems are provided by public agencies pursuant to a statutory obligation of continued non-preferential service to purveyors within the agencies' boundaries. Purchases for the Bayshore and Bear Gulch districts are in accordance with long-term contracts with the San Francisco Public Utilities Commission (SFPUC) until June 30, 2034.

Management anticipates water supply contracts will be renewed as they expire though the price of wholesale water purchases is anticipated to increase in the future.

Shown below are wholesaler price rates and increases that became effective in 2023, and estimated wholesaler price rates and percent changes for 2024. In 2023, several districts experienced purchased water rate increases, resulting in the filing of several purchased water offsets.

District	Effective Month	2023		Effective Month	2024	
		Unit Cost	Percent Change		Unit Cost	Percent Change
Antelope	July	\$752.00 /af	7.6%	July	\$809.00 /af	7.6%
Bakersfield (1)	July	\$195.00 /af	8.9%	January	\$195.00 /af	—
Bear Gulch	July	\$5.21 /ccf	9.7%	January	\$5.21 /ccf	—
Commerce (2)	January	\$1,379.00 /af	5.0%	January	\$1,426.00 /af	3.4%
Dominguez (2)	July	\$1,605.00 /af	7.0%	January	\$1,677.00 /af	4.5%
East Los Angeles (2)	January	\$1,379.00 /af	5.0%	January	\$1,426.00 /af	3.4%
Hawthorne (2)	July	\$1,605.00 /af	7.0%	January	\$1,677.00 /af	4.5%
Hermosa-Redondo (2)	July	\$1,605.00 /af	7.0%	January	\$1,677.00 /af	4.5%
Livermore	February	\$2.27 /ccf	10.2%	January	\$2.34 /ccf	3.1%
Los Altos	July	\$2,089.00 /af	13.6%	January	\$2,089.00 /af	—
Oroville (2)	April	\$216,068 /yr	8.0%	January	\$216,068 /yr	—%
Palos Verdes (2)	July	\$1,605.00 /af	7.0%	January	\$1,677.00 /af	4.5%
Mid-Peninsula	July	\$5.21 /ccf	9.7%	January	\$5.21 /ccf	—
Redwood Valley	January	\$69.24 /af	—	January	\$69.24 /af	—
South San Francisco	July	\$5.21 /ccf	9.7%	January	\$5.21 /ccf	—
Stockton	October	\$931,190 /mo	1.4%	January	\$931,190 /mo	—
Westlake	January	\$1,632.00 /af	4.5%	January	\$1,730.00 /af	6.0%

af = acre foot;

ccf = hundred cubic feet;

yr = fixed annual cost;

mo = fixed monthly cost

(1) untreated water

(2) wholesaler price changes occur every six months

We work with all local suppliers and agencies responsible for water supply to enable adequate, long-term supply for each system.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Water Supply" for more information on adequacy of supplies.

Seasonal Fluctuations

In California, our customers' consumption pattern of water varies with the weather, in terms of rainfall and temperature. When setting customer rates, the CPUC considers the historical pattern in determining the adopted sales and production costs. With a majority of our sales expected to be subject to the MWRAM and per-unit variations in production costs being covered by the ICBA, fluctuations in financial results are expected to be moderated once the MWRAM and ICBA mechanisms are approved by the CPUC. However, cash flows from operations and short-term borrowings on our credit facilities can be significantly impacted by seasonal fluctuations including recovery of the MWRAM and ICBA.

Our water business is seasonal in nature. Weather conditions can have a material effect on customer usage. Customer demand for water generally is lower during the cooler and rainy winter months. Demand increases in the spring when warmer weather returns and the rains end, and customers use more water for outdoor purposes such as landscape irrigation. Warm temperatures during the generally dry summer months result in increased demand. Water usage declines during the late fall as temperatures decrease and the rainy season begins. During years in which precipitation is especially heavy or extends beyond the spring into the early summer, customer demand can decrease from historic normal levels, generally due to reduced outdoor water usage. Likewise, an early start to the rainy season during the fall can cause a decline in customer usage. As a result, seasonality of water usage has a significant impact on our cash flows from operations and borrowing on our short-term facilities.

Utility Plant Construction

We have continually extended, enlarged, and replaced our facilities as required to meet increasing demands and to maintain our water systems. We obtain construction financing using funds from operations, long-term financing, advances for construction and contributions in aid of construction that are funded by developers. Advances for construction are cash deposits from developers for construction of water facilities or water facilities deeded from developers. These advances are generally refundable without interest over a period of 40 years in equal annual payment amounts and developer-installed facilities are exempt from corporate income taxes. Contributions in aid of construction consist of nonrefundable cash deposits or facilities transferred from developers, primarily for fire protection and relocation projects. We cannot control the amounts received from developers. This amount fluctuates from year-to-year as the level of construction activity carried on by developers varies. This activity is impacted by the demand for housing, commercial development, and general business conditions, including interest rates.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information.

Energy Reliability

We continue to seek to use power efficiently to minimize the power expenses passed on to our customers, and maintain backup power systems to continue water service to our customers if the power companies' supplies are interrupted. If future legislation limits emissions from the power generation process, our cost of power may increase. Any increase in the per-unit cost of power would be expected to be passed along to our California customers through the ICBA or included in our cost of service paid by our customers as requested in our GRC filings. Many of our well sites are equipped with emergency electric generators designed to produce electricity to keep the wells operating during power outages. Storage tanks also provide customers with water during blackout periods.

During 2023, 2022, and 2021 we leased additional emergency generators to respond to potential PSPSs, an electric utility operating paradigm approved by the CPUC.

Security at Company Facilities

Due to terrorism and other risks, we have heightened security at our facilities and have taken added precautions to protect our employees and the water delivered to customers. In 2002, federal legislation was enacted that resulted in new regulations concerning security of water facilities, including submitting vulnerability assessment studies to the federal government. We have complied with regulations issued by the EPA pursuant to federal legislation concerning vulnerability assessments and have made filings to the EPA as required. In addition, communication plans have been developed as a component of our procedures.

In accordance with the 2018 America's Water Infrastructure Act (AWIA), we are required to conduct additional risk and resilience assessments (RRAs) and develop emergency response plans (ERPs) for each of our water systems. These RRAs and ERPs include natural hazards as well as malevolent acts. The first such assessments were completed in 2020. The RRAs are scheduled to be reviewed and resubmitted every five years.

While we do not make public comments on our security programs, we have been in contact with federal, state, and local law enforcement agencies to coordinate and improve our water delivery systems' security.

Competition and Condemnation

Our principal operations are regulated by the Commission of each state. Under state laws, no privately owned public utility may compete within any service territory that we already serve without first obtaining a certificate of public convenience and necessity from the applicable Commission. Issuance of such a certificate would only be made upon finding that our service is deficient. To management's knowledge, no application to provide service to an area served by us has been made.

State law in California provides that whenever a public agency constructs facilities to extend a utility system into the service area of a privately owned public utility, such an act constitutes the taking of property and requires reimbursement to the utility for its loss. State law in Washington and other states recognize chartered service areas but do not have specific statutes. State statutes allow municipalities, water districts and other public agencies to own and operate water systems. These agencies are empowered to condemn properties already operated by privately owned public utilities. The agencies are also authorized to issue bonds, including revenue bonds, for the purpose of acquiring or constructing water systems. However, if a public agency were to acquire utility property by eminent domain action, the utility would be entitled to just compensation for its loss. In Washington, annexation was approved in February 2008 for property served by us on Orcas Island; however, we continue to serve the customers in the annexed area and do not expect the annexation to affect our operations. To management's knowledge, other than the Orcas Island property, no municipality, water district, or other public agency is contemplating or has any action pending to acquire or condemn any of our systems.

Government Regulations

Our water and wastewater services are governed by various federal and state environmental protection, health and safety laws, and regulations. These provisions establish criteria for drinking water and for discharges of water, wastewater, and airborne substances. The EPA, state water quality regulators, and other state regulatory authorities promulgate numerous nationally and locally applicable standards, including MCLs for drinking water. We believe we are currently in compliance with all of the MCLs promulgated to date.

Environmental Matters

Our operations are subject to environmental regulation by various governmental authorities. Environmental health and safety programs have been designed to provide compliance with water discharge regulations, underground and above-ground fuel storage tank regulations, hazardous materials management plans, hazardous waste regulations, air quality permitting requirements, wastewater discharge limitations, and employee safety issues related to hazardous materials. In addition, we actively investigate alternative technologies for meeting environmental regulations and continue the traditional practices of meeting environmental regulations.

For a description of the material effects that compliance with environmental regulations may have on us, see Item 1A. "Risk Factors—Risks Related to Our Regulatory Environment." We expect environmental regulation to increase, resulting in higher operating costs in the future, and there can be no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

Quality of Water Supply

Our operating practices are designed to produce potable water in accordance with accepted water utility practices. Water entering the distribution systems from surface sources is treated in compliance with federal and state Safe Drinking Water Act (SDWA) standards. Most well supplies are chlorinated or chloraminated for disinfection. Water samples from each water system are analyzed on a regular, scheduled basis in compliance with regulatory requirements. We operate a state-certified water quality laboratory at the San Jose Customer Support Services Office that provides testing for most of our California operations. Certain tests in California are contracted with independent certified labs qualified under the Environmental Laboratory Accreditation Program. Local independent state certified labs provide water sample testing for the Washington, New Mexico, and Hawaii operations.

In recent years, federal and state water quality regulations have resulted in increased water sampling requirements. The SDWA continues to be used to monitor and regulate additional potential contaminants to address public health concerns. The State of California has continued to adopt new water quality regulations, which may be in addition to those adopted by the EPA. We monitor water quality standard changes and upgrade our treatment capabilities to maintain compliance with the various regulations.

Impact of Climate Change Legislation and Regulation

Our operations depend on power provided by other public utilities and, in emergencies, power generated by our portable and fixed generators. If future legislation limits emissions from the power generation process, our cost of power may increase. Any increase in the cost of power would be expected to be passed along to our California customers through the ICBA or included in our cost of service paid by our customers as requested in our GRC filings.

We maintain a fleet of vehicles to provide service to our customers, including a number of passenger vehicles, as well as heavy-duty diesel vehicles that were retrofitted to meet California emission standards. If future legislation affects the cost to operate the fleet or the fleet acquisition cost in order to meet certain emission standards and/or requirements to phase-in the use of zero-emission vehicles, it would increase our cost of service and our rate base. Any increase in fleet operating costs associated with meeting emission standards and/or requirements to phase-in the use of zero-emission vehicles would be expected to be included in our cost of service paid by our customers as requested in our GRC filings. While recovery of these costs is not guaranteed, we would expect recovery in the regulatory process.

Under the California Environmental Quality Act (CEQA), all capital projects of a certain type (primarily wells, tanks, major pipelines, and treatment facilities) require mitigation of greenhouse gas emissions. The cost to prepare the CEQA documentation and permit are expected to be included in our capital cost and added to our rate base, which is expected to be requested to be paid for by our customers. Any increase in the operating cost of the facilities would also be expected to be included in our cost of service paid by our customers as requested in our GRC filings. While recovery of these costs is not guaranteed, we would expect recovery in the regulatory process.

Cap and trade regulations were implemented in 2012 with the goal of reducing emissions to 1990 levels by the year 2020. These regulations have not affected water utilities at this time. In the future, if we are required to comply with these regulations, any increase in operating costs associated with meeting these standards would be included in our cost of service paid by our customers as requested in our GRC filings. While recovery of these costs is not guaranteed, we would expect recovery in the regulatory process.

We currently publicly disclose information about our climate change strategy, risks, metrics, and targets. If future legislation or regulation requires new or additional reporting on our climate change strategy, risks, metrics, and/or targets, our cost to gather and report that information in accordance with the legislation or regulation may increase, and we may be subject to litigation, enforcement proceedings, fines or other penalties if we are unable to comply in part or in whole, or if our efforts are deemed insufficient.

Human Capital Resources

We believe our employees are our most valuable asset and are critical to our continued success. We focus our attention on attracting and retaining talented and experienced individuals to manage and support our operations. We offer our employees a broad range of Company-paid benefits, and we believe our compensation package and benefits are competitive with others in our industry. Additional information about our employee benefit plans is included in Note 11 of the Notes to Consolidated Financial Statements.

We are committed to hiring, developing, and supporting a diverse and inclusive workplace. Our employees are expected to exhibit and promote honest, ethical, and respectful conduct. All of our employees must adhere to a business code of conduct that sets standards for appropriate behavior and ethics and includes required internal training on preventing, identifying, reporting, and stopping any type of discrimination.

Employee health and safety in the workplace is one of the Company's core values. Safety efforts are led by the Executive Safety Committee and supported by safety committees that operate at the local level. Hazards in the workplace are actively identified and management tracks incidents so remedial actions can be taken to improve workplace safety.

As evidenced by our internally created Future Leaders of Water Development Program, our management team supports a culture of developing future leaders from our existing workforce, enabling us to promote from within for many leadership positions. We believe this provides long-term focus and continuity to our operations while also providing opportunities for the growth and advancement of our employees. Our focus on retention is evident in the length of service of our management team. The average tenure of our management team is over 10 years.

Employee levels are managed to align with the pace of business and management believes it has sufficient human capital to operate its business successfully. Management believes that the Company's employee relations are favorable. At December 31, 2023, we had 1,266 employees, including 1,118 at Cal Water, 82 at Washington Water, 48 at Hawaii Water, 18 at New Mexico Water, and no employees at Texas Water. In California, the Utility Workers Union of America (UWUA), AFL-CIO represents our non-exempt field, customer service, and non-confidential clerical employees and the International Federation of Professional and Technical Engineers (IFPTE), AFL-CIO represents our professional and technical engineering and water quality laboratory employees.

As of December 31, 2023, we had 667 employees represented by the UWUA and 90 employees represented by the IFPTE. In 2021, we reached a six-year agreement with both unions on a new contract that runs from May 14, 2021 (UWUA) and October 4, 2021 (IFPTE) through February 28, 2027. We believe this agreement continues to provide our employees with a market competitive pay and benefits package.

Employees at Hawaii Water, Washington Water, and New Mexico Water are not represented by a labor union.

Information About Our Executive Officers

<u>Name</u>	<u>Positions and Offices with California Water Service Group</u>	<u>Age</u>
Martin A. Kropelnicki (1)	Chairman, President and Chief Executive Officer since June 1, 2023. Formerly, President and Chief Executive Officer (2013-2023), President and Chief Operating Officer (2012-2013), Chief Financial Officer and Treasurer (2006-2012), served as Chief Financial Officer of Power Light Corporation (2005-2006), Chief Financial Officer and Executive Vice President of Corporate Services of Hall Kinion and Associates (1997-2004), Deloitte & Touche Consulting (1996-1997), held various positions with Pacific Gas & Electric Company (1989-1996).	57
David B. Healey (2)	Principal Financial Officer since January 3, 2024. Formerly, Vice President, Chief Financial Officer and Treasurer (2023-2024), Vice President, Corporate Controller and Assistant Treasurer (2015-2023), Corporate Controller and Assistant Treasurer (2012-2014), Director of Financial Reporting (2009-2012), served as Subsidiary Controller for SunPower Corporation (2005-2009), Corporate Controller for Hall, Kinion & Associates, Inc. (1997-2005), held various positions with Pacific Gas & Electric Company (1985-1997).	67
James P. Lynch (2)	Senior Vice President, Chief Financial Officer and Treasurer since January 3, 2024. Formerly, Manager of Special Projects (2023), Chief Accounting Officer for SJW Group, a water utility company (2022-2023), Chief Financial Officer and Treasurer for SJW Group (2010-2022), Audit Partner with KPMG LLP (1997-2010), held various other positions with KPMG LLP (1984-1997). Certified public accountant.	64
Michael B. Luu (2)	Senior Vice President, Corporate Services & Chief Risk Officer since June 1, 2023. Formerly, Vice President, Information Technology and Chief Risk Officer (2021-2023), Vice President of Customer Service and Chief Information Officer (2017-2020), Vice President of Customer Service and Information Technology (2013-2016), Acting California Water Service Company District Manager, Los Altos (2012-2013), Director of Information Technology (2008-2012), CIS Development Manager (2005-2008), held various other positions with California Water Service Company since 1999.	44
Shawn C. Bunting (2)	Senior Vice President, General Counsel & Business Development since January 1, 2024. Formerly, Vice President, General Counsel and Corporate Secretary (2023), Senior Vice President & Deputy General Counsel for American Water Works Company, Inc., a water utility holding company (2021-2022), Vice President and Deputy General Counsel (2015-2021), Vice President & Division General Counsel – Eastern Division (2015-2016), Vice President & Division General Counsel – Mid-Atlantic Division (2014-2015), held other various positions with American Water Works Company, Inc. (2008-2014), Assistant General Counsel (Director) at Allegheny Energy, Inc. (2005-2008), and attorney at K&L Gates LLP (1998-2005).	51
Shannon C. Dean (2)	Senior Vice President, Customer Service & Chief Sustainability Officer since January 1, 2024. Formerly, Vice President, Customer Service and Chief Citizenship Officer (2021-2023), Vice President of Corporate Communications & Community Affairs (2015-2020), Director of Corporate Communications (2000-2014), held various corporate communications, government, and community relations positions for Dominguez Water Company (1991-1999).	56

Name	Positions and Offices with California Water Service Group	Age
Michael S. Mares, Jr (2)	Senior Vice President, Operations since January 1, 2024. Formerly, Vice President, Operations (2021-2023), Vice President, California Operations (2019-2020), California Water Service Company District Manager, Bakersfield (2017-2018), Hawaii Water Service Company General Manager (2014-2016), Hawaii Water Service Company Local Manager, Big Island (2012-2014), California Water Service Company, held various Superintendent positions in the Chico district (2002-2012), California Water Service Company, held various union positions in the Chico district (1992-2002).	57
Ronald D. Webb (2)	Vice President, Chief Human Resource Officer since January 1, 2022. Formerly, Vice President of Human Resources (2014-2021), Managing Director, Human Resources Partner for United Airlines (2006-2014), served as Vice President of Human Resources for Black & Decker Corporation (1995-2005), Human Resource Manager for General Electric Company (1990-1994), and held various labor relations positions for National Steel and Shipbuilding Company (1982-1989).	67
Michelle R. Mortensen (2)	Vice President, Corporate Secretary and Chief of Staff since January 1, 2022. Formerly, Vice President, Corporate Secretary (2021), Corporate Secretary (2015-2020), Assistant Corporate Secretary (2014), Treasury Manager (2012-2013), Assistant to the Chief Financial Officer (2011), Regulatory Accounting Manager (2008-2010), held various accounting positions at Piller Data Systems (2006-2007), Hitachi Global Storage (2005), Abbot Laboratories (2002-2004), and Symantec (1998-2001).	49
Elissa Y. Ouyang (2)	Vice President, Facilities, Fleet and Procurement since January 1, 2022. Formerly, Chief Procurement and Lead Continuous Improvement Officer (2016-2021), Interim Procurement Director (2013-2016), Acting District Manager - Los Altos (2013), Interim Vice President of Information Technology (2012-2013), Director of Information Technology - Architecture and Security (2008-2012), Business Application Manager (2003-2007), Project Lead/Senior Developer (2001-2003), held various business consulting positions at KPMG Consulting/BearingPoint (1998-2001), and RR Donnelley (1996-1998).	55
Greg A. Milleman (2)	Vice President, Rates & Regulatory Affairs since January 1, 2022. Formerly, Vice President, California Rates (2019-2021), Interim Director of Rates (2017-2018), Director of Field Administration & Finance (2014-2017), Manager of Special Projects (2013), and served as Senior Vice President of Administration and Corporate Secretary and various other management positions for Valencia Water Company (1992-2013).	61
Thomas A. Scanlon (2)	Corporate Controller and Principal Accounting Officer since January 1, 2023. Formerly, Director of Financial Reporting (2010-2022), Subsidiary Controller at Sun Power Systems Corporation (2007-2010), and Regional Controller at Swinerton Builders, Inc. (2000-2007).	61
Sophie M. James (2)	Vice President, Water Quality & Environmental Affairs since January 1, 2024. Formerly, Chief Water Quality Officer (2022-2023), Director of Water Quality (2014-2021), Manager of Laboratory Service (2006-2013), and Environmental Chemist, City of Sunnyvale (1992-2006).	55

(1) Holds the same position with California Water Service Company, CWS Utility Services, Hawaii Water Service Company, Inc., New Mexico Water Service Company, and TWSC, Inc.; Chief Executive Officer of Washington Water Service Company.

(2) Holds the same position with California Water Service Company, CWS Utility Services, Hawaii Water Service Company, Inc., New Mexico Water Service Company, Washington Water Service Company, and TWSC, Inc.

Item 1A. Risk Factors.

In evaluating our business, you should carefully consider the following discussion of material risks, events, and uncertainties that make an investment in us speculative or risky in addition to the other information in this Annual Report on Form 10-K. A manifestation of any of the following risks and uncertainties could, in circumstances we may or may not be able to accurately predict, materially and adversely affect our business, growth, reputation, prospects, operating and financial results, financial condition, cash flows, liquidity, and stock price. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. It is not possible to predict or identify all such factors; our operations could also be affected by factors, events or uncertainties that are not presently known to us or that we currently do not consider to present significant risks to our operations. Therefore, you should not consider the following risks to be a complete statement of all the potential risks or uncertainties that we face.

Risks Related to Our Regulatory Environment

Our business is heavily regulated by state and federal regulatory agencies and our financial viability depends upon our ability to recover costs and investments from our customers through rates that must be approved by state public utility commissions.

Cal Water, New Mexico Water, Washington Water, and Hawaii Water are regulated public utilities, which provide water and water-related service to our customers. Additionally, Hawaii Water and Texas Water own in whole or in part other companies which are regulated public utilities. The rates that we charge our water customers are subject to the jurisdiction of the regulatory Commissions in the states in which we operate. These Commissions may set water and water-related rates for each operating district independently because the systems are not interconnected. The Commissions authorize us to charge rates that they consider sufficient to recover normal operating expenses, to provide funds for adding new or replacing water infrastructure, and to allow us the opportunity to earn what the Commissions consider to be a fair and reasonable return on invested capital.

Our revenues and consequently our ability to meet our financial objectives are dependent upon the rates we are authorized to charge our customers by the Commissions and our ability to recover our costs in these rates. Our management uses forecasts, models and estimates in order to set rates that we believe will provide a fair and reasonable return on our invested capital. While our rates must be approved by the Commissions, no assurance can be given that our forecasts, models and estimates will be correct or that the Commissions will agree with our forecasts, models, and estimates. If our rates are set too low, our revenues may be insufficient to cover our operating expenses, capital expenditure requirements and desired dividend levels.

We periodically file rate increase applications with the Commissions. The ensuing administrative and hearing process may be lengthy and costly. The decisions of the Commissions are beyond our control and we can provide no assurances that our rate increase requests will be granted by the Commissions. Even if approved, there is no guarantee that approval will be given in a timely manner or at a sufficient level to cover our expenses and provide a reasonable return on our investment. If the rate increase decisions are delayed or approved at a level that is lower than what we have requested, our earnings may be adversely affected. For example, the CPUC has not issued its final decision on our 2021 GRC, which has resulted in lower revenues in 2023 and is leading to financial and operating uncertainty for the Company. Our ability to execute on our business strategy is expected to be adversely impacted if the CPUC issues a final decision on our 2021 GRC that results in approving lower rate increases than what we have requested.

Our evaluation of the probability of recovery of regulatory assets is subject to adjustment by regulatory agencies and any such adjustment could adversely affect our results of operations and financial condition.

Regulatory decisions may affect prospective revenues and earnings and the timing of the recognition of revenues and expenses and may overturn past decisions used in determining our revenues and expenses. While our management evaluates the anticipated recovery of regulatory assets and revenues subject to refund and provides for allowances and/or reserves as deemed necessary, no assurance can be given that any such allowances and/or reserves will be adequate to cover any loss or adjustment due to the absence of our limited recovery of regulatory assets and revenues as a result of regulatory decisions. Current accounting procedures allow us to defer certain costs if we believe it is probable that we will be allowed to recover those costs through future rate increases. If the Commissions determined that a portion of our assets were not recoverable in customer rates, we may suffer an asset impairment, which would require a write down in such asset's valuation that would be recorded through operations.

If our assessment as to the probability of recovery through the ratemaking process is later determined to be incorrect, the associated regulatory asset would be adjusted to reflect the change in our assessment of any regulatory disallowances. A change in our evaluation of the probability of recovery of regulatory assets or a regulatory disallowance of all or a portion of our cost could have a material adverse effect on our financial results.

Regulatory agencies may disagree with our valuation and characterization of certain of our assets.

If we determine that assets are no longer used or useful for utility operations, we may remove them from our rate base and subsequently sell those assets with any gain on sales accruing to the stockholders, subject to certain conditions. If the Commissions disagree with our characterization, there is a risk that the Commissions could determine that realized appreciation in property value should be awarded to customers rather than our stockholders.

Changes in laws, rules, and policies of our regulators or operating jurisdictions can significantly affect our business.

Regulatory agencies may change their rules and policies for various reasons, including changes in the local political environment. Regulators are elected by popular vote or are appointed by elected officials, and the election of a new administration or the appointment of new officials due to the results of elections may result in dramatic change to the long-established rules and policies of an agency. For example, in 2020 regulation regarding full decoupling WRAMs changed in California. Since 2008, the CPUC allowed full decoupling WRAMs. However, in 2020, the CPUC precluded companies from proposing full decoupling WRAMs in their next GRC filings. As a result, we have been precluded from recording WRAM revenue since the conclusion of the WRAM as of December 31, 2022.

We rely on policies and regulations promulgated by the various state commissions in order to recover capital expenditures, maintain favorable treatment on gains from the sale of real property, offset certain 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 non-regulated operations. If any of the Commissions with jurisdiction over us implements policies and regulations that do not allow us to accomplish some or all of the items listed above, our future operating results may be adversely affected.

In addition, legislatures may repeal, relax or tighten existing laws, or enact new laws that affect the regulatory agencies with jurisdiction over our business or affect our business directly. If changes in existing laws or the implementation of new laws limit our ability to accomplish some of our business objectives, or make accomplishing such objectives more expensive, our future operating results may be adversely affected.

Finally, local jurisdictions may impose new ordinances, laws, fees, and regulations that could increase costs or limit our operations, which affect future operating results. Cities may impose or amend franchise requirements, impose conditions on underground construction or land use, impose various taxes and fees, or restrict our hours for construction, among other things. In the last decade, more cities have imposed excavation moratoria or paving rules, which has required more costly construction than anticipated.

We expect environmental health and safety regulation to increase, resulting in higher operating costs in the future and the potential that the company fails to meet these regulatory standards.

Our water and wastewater services are governed by various federal and state environmental protection, health and safety laws, and regulations. Although we have a water quality assurance program in place, we cannot guarantee that we will continue to comply with all standards. If we violate any federal or state regulations or laws governing health and safety, we could be subject to substantial fines or otherwise sanctioned, subject to potential civil liability for damages, and our customers' trust in our operations ability could be eroded.

Environmental health and safety laws are complex and change frequently. They have tended to become more stringent over time. As new or stricter standards are introduced, our operating costs could increase. Although we would likely seek permission to recover these costs through rate increases, we can give no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

We are required to test our water quality for certain chemicals and potential contaminants on a regular basis. If the test results indicate that our water exceeds allowable limits, we may be required either to commence treatment to remove the contaminant or to develop an alternate water source. Either of these results may be costly. Although we would likely seek permission to recover these through rate increases, there can be no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

Past events in the utility sector, including those in Flint, Michigan and related to Pacific Gas and Electric Company in California, show that failure to meet one or more water quality, environmental, or safety standards can have severe effects on customer trust, reputation, regulatory treatment, or civil and criminal liability.

New and/or more stringent water quality regulations could increase our operating costs.

We are subject to water quality standards set by federal, state, and local authorities that have the power to issue new regulations. Compliance with new regulations that are more stringent than current regulations could increase our operating costs and capital expenditures, including requirements for increased monitoring, additional treatment of underground water supplies, fluoridation of all supplies, more stringent performance standards for treatment plants, additional procedures to further reduce levels of disinfection by-products, and more comprehensive measures to monitor, reduce or eliminate known or newly identified contaminants. There are currently limited regulatory mechanisms and procedures available to us for the recovery of such costs and there can be no assurance that such costs will be fully recovered and failure to do so may adversely affect our operating results.

Attention is being given to contaminants of emerging concern, including, without limitation, chemicals and other substances that currently do not have any regulatory standard in drinking water or have been recently created or discovered. We believe these contaminants may form the basis for additional or increased federal or state regulatory initiatives and requirements in the future, which could significantly increase the cost of our operations.

For example, while there are currently no federal MCLs or state MCLs in states in which we operate for per- and polyfluoroalkyl substances (PFAS) compounds, we continue to closely monitor the regulatory process at state and federal levels, follow recommendations from our regulators, review existing and new treatment methods, and develop a response strategy to help prepare us to meet anticipated MCLs. Currently the federal government has proposed regulations for 6 PFAS compounds. Where detections of PFAS in our California systems have exceeded the state-established response levels, we have implemented procedures for removing the source from service or installing treatment for PFAS.

We also treat several affected water supplies for chromium-6, which experts suggest is harmful to human health and for which the California State Water Resources Control Board is developing a new MCL. To treat chromium-6, we use strong base anion exchange or reduction, coagulation, oxidation, and filtration treatment methods. We began treating water supplies in California for chromium-6 shortly after the state safe drinking water standard was set in 2014, which was subsequently remanded, and we have continued to meet the threshold for affected active water sources as regulations have evolved.

While there are no known lead service lines within Cal Water systems, the Revised Lead and Copper Rule from the EPA includes expanded requirements to complete service line inventories on both the water utility's and the customer's side of the water meter to identify lead in drinking water. As part of our compliance strategy for this updated rule, we are currently conducting an inventory to identify potential lead service lines on the customer side of the water meter.

Legislation and regulation designed to mitigate or adapt to climate change may affect our operations.

Future legislation or regulation regarding climate change may restrict our operations or impose new costs on our business. Our operations depend on power provided by other public utilities and, in emergencies, power generated by our portable and fixed generators. If future legislation or regulation limits emissions from the power generation process, our cost of power may increase. Although any increase in the cost of power would be expected to be passed along to our California customers through the ICBA or included in our cost of service paid by our customers as requested in our GRC filings in California, we can give no assurance that such costs would be passed along to our California customers or that the CPUC would approve rate increases to enable us to recover such expenditures or costs.

Legislation and regulation regarding greenhouse gas emissions may also impose new costs on our business. For example, in March 2022, the U.S. Securities and Exchange Commission proposed climate disclosure rules that would require public companies to significantly increase disclosure of greenhouse gas emissions and strategies, targets, costs and risks associated with climate change and the energy transition. Additionally, in October 2023, California enacted legislation addressing the disclosure of greenhouse gas emissions, climate-related risks, environmental claims, and the use or sale of voluntary carbon offsets. New and future laws and regulations could increase the complexity of and costs associated with compliance with such regulations, which could have a material adverse effect on our business, results of operations, and financial condition.

We have been and may in the future be party to environmental and product-related lawsuits, which could result in us paying damages not covered by insurance.

We have been and may be in the future, party to water contamination lawsuits, which may not be fully covered by insurance.

The number of environmental and product-related lawsuits against other water utilities has increased in frequency in recent years. If we are subject to additional environmental or product-related lawsuits, we might incur significant legal costs and it is uncertain whether we would be able to recover the legal costs from customers or other third parties. In addition, if current California law regarding CPUC's preemptive jurisdiction over regulated public utilities for claims about compliance with California Department of Health Services and United States EPA water quality standards changes, our legal exposure may be significantly increased.

Risks Related to Our Business Operations

We are at risk for litigation under the principle of inverse condemnation for activities in the normal course of business that are deemed to have a damaging effect on private property.

The California constitution may allow compensation to property owners for a public utility taking or damaging private property, even when damage occurs through no fault of the utility and regardless of whether the damage could be foreseen by the utility. As a result, this doctrine, which is known as inverse condemnation and is routinely invoked in California, imposes strict liability for damages, including legal fees, because of the design, construction, maintenance and operation of utility facilities. In addition to claims that our water or wastewater systems damaged property, Cal Water could be sued under inverse

condemnation if its facilities or operations damage private property, or if it is unable to timely deliver sufficient quantities of water for firefighting because of system capacity limitations or water supply disruptions, including as a result of action taken by an electric utility pursuant to a PSPS program or other loss of power. Although the imposition of liability is premised on the assumption that utilities have the ability to recover these costs from their customers, there is no assurance that the CPUC would allow Cal Water to recover any such damage awards from customers. For example, in December 2017, the CPUC denied recovery of costs that San Diego Gas & Electric Company incurred because of inverse condemnation, holding that the inverse condemnation principles of strict liability are not relevant to the CPUC's prudent manager standard.

The effects of natural disasters, attacks by third parties, or poor water quality or contamination to our water supply may result in disruption in our services and litigation, which could adversely affect our business, operating results and financial condition.

We operate in areas that are prone to earthquakes, fires, mudslides, and other natural disasters. A significant seismic event or other natural disaster in California where our operations are concentrated could adversely affect our ability to deliver water and adversely affect our costs of operations. A major disaster could damage or destroy substantial capital assets. The CPUC has historically allowed utilities to establish a catastrophic event memorandum account as another possible mechanism to recover costs. However, we can give no assurance that the CPUC or any other commission would allow any such cost recovery mechanism in the future.

Our water supplies are subject to contamination, including contamination from the development of naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from fabricated sources, such as 1,2,3-Trichloropropane (TCP) and PFAS, seawater incursion, and possible third-party attacks, including physical attacks, terrorist attacks, and cyber-attacks. If our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute the flow of water from an uncontaminated water source. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or if we are unable to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our revenues, operating results, and financial condition. The costs we incur to decontaminate a water source or an underground water system could be significant and may not be recoverable in rates. We could also be held liable for consequences arising out of human exposure to hazardous substances in our water supplies or other environmental damage. For example, private plaintiffs have the right to bring personal injury or other toxic tort claims arising from the presence of hazardous substances in our drinking water supplies. Our insurance policies may not be sufficient to cover the costs of these claims.

We have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply, to protect against third-party attacks, including physical attacks, terrorist attacks, and cyber-attacks. We have also improved our security measures regarding the delivery and handling of certain chemicals used in our business. We have and will continue to bear increased costs for security precautions to protect our facilities, operations, and supplies. These costs may be significant. Despite these improved security measures, we may not be able to prevent or deter any third-party attacks or be in a position to control the outcome of third-party attacks should they occur.

We depend upon our skilled and trained workforce for water delivery. Actual or threatened public health emergencies, including disease outbreaks, may also lead to the closure of our facilities or to the illness of our employees. We can give no assurance that we will be able to maintain sufficient human resources to provide service in all of the districts that we serve.

If any of these catastrophic events were to occur, we can give no assurance that our emergency preparedness plans would be adequate and that we would respond effectively, which could result in public or employee harm or adversely affect our revenues, operating results, and financial condition.

Failure of critical elements of our infrastructure could result in interruption of service, damage to others, or injuries, and could adversely affect our business, operating results, and financial condition.

We own physical infrastructure, which was installed over a long period of time, both underground and above-ground. This infrastructure is subject to potential failure due to age, operating conditions, or other unknown factors. Failure of any of our facilities or infrastructure could cause flooding, loss of service to our customers, contamination from chemicals we use in operations, or other damages.

We operate a dam. If the dam were to fail for any reason, we would lose a water supply and flooding likely would occur. Whether or not we were responsible for the dam's failure, we could be sued. We can give no assurance that we would be able to defend such a suit successfully.

We operate several water and wastewater treatment plants. If a major failure of these facilities were to occur, we would have an interruption in service, potential flooding, and could release potentially harmful material into the environment.

We operate over 7,000 miles of underground pipeline. Some failures of underground pipelines could release disinfection chemicals into the environment, which have a negative impact on sensitive habitats.

We rely on our information technology (IT), operational technology (OT), and a number of complex business systems to assist with the management of our business and customer and supplier relationships, and a disruption of these systems, including from cyber-attacks, could adversely affect our business.

Our IT and OT systems are an integral part of our business, and a serious disruption of these systems could significantly limit our ability to manage and operate our business efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. We rely on our IT and OT networks and applications to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our systems also enable us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations, and provide service to our customers. Some of our mission and business critical systems are older and the steps we have taken to protect our systems may be insufficient to protect them from damage or interruption from:

- power loss, computer systems failures, including hardware equipment and software applications, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data due to security breaches, cyber-attacks, misappropriation, acts of violence, war or terrorism, and similar events;
- computer viruses;
- intentional security breaches, hacking, denial of services actions, misappropriation of data, and similar events, including intentional cybersecurity breaches aimed at disrupting and interfering with water treatment processes; and
- earthquakes, floods, fires, mudslides, and other natural disasters or physical attacks.

These events may result in physical and/or electronic loss of customer or financial data; security breaches; misappropriation; disruption of service to our customers; loss of revenues, response costs, and other financial loss; loss of management time, attention, and resources from our regular business operations; damage to our reputation; and other adverse consequences, including liability or regulatory penalties under data privacy laws and regulations. In addition, the lack of redundancy for certain of our IT systems, including billing systems, could exacerbate the impact of any of these events on us, all of which could have a negative impact on our business, results of operations, and cash flows. These types of events, either impacting our facilities or the industry in general, could also cause us to incur additional security and insurance related costs. In addition, in the ordinary course of business, we collect and retain sensitive information, including personally identifiable information, about our customers, employees, and vendors. In many cases, we outsource the administration of certain functions to vendors that have been and will continue to be targets of cyber-attacks. Any theft, loss or fraudulent use of customer, employee, vendor, or proprietary data as a result of a cyber-attack on us or a vendor could also subject us to significant litigation, liability, and costs, as well as adversely impact our reputation with customers and regulators, among others.

In addition, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our business, and we might lack sufficient resources to make the necessary upgrades or replacements of our outdated existing technology to allow us to continue to operate at our current level of efficiency, all of which could adversely impact our business and competitive position. We maintain cybersecurity insurance to provide coverage for a portion of the losses and damages that may result from a security breach, but such insurance is subject to a number of exclusions and may not cover the total loss caused by a breach. Other costs associated with cyber events may not be covered by insurance or recoverable in rates. The market for cybersecurity insurance continues to evolve and may affect the future availability of cyber insurance at reasonable rates.

The adequacy of our water supplies depends upon a variety of factors beyond our control. Interruption in the water supply may adversely affect our reputation and earnings.

We depend on an adequate water supply to meet the present and future needs of our customers. Whether we have an adequate supply varies depending upon a variety of factors, many of which are partially or completely beyond our control, including:

- the amount of rainfall;
- the amount of water stored in reservoirs;

- underground water supply from which well water is pumped;
- availability from water wholesalers;
- changes in the amount of water used by our customers;
- water quality and availability of appropriate treatment technology;
- legal limitations on water use such as rationing restrictions during a drought;
- changes in prevailing weather patterns and climate; and
- population growth.

We purchase our water supply from various governmental agencies and others, and, in many areas, purchased water is the only available source of water. Water supply availability may be affected by weather conditions, funding and other political and environmental considerations. In addition, our 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 our water production costs and adversely affecting our operating results if not recovered in rates on a timely basis.

We have entered into long-term water supply agreements, which commit us to making certain minimum payments whether or not we purchase any water. Therefore, if demand were insufficient to use our required purchases we would have to pay for water we did not receive.

From time to time, we enter into water supply agreements with third parties and our business is dependent upon such agreements in order to meet regional demand. For example, we have entered into a water supply contract with the SFPUC that expires on June 30, 2034. We can give no assurance that the SFPUC, or any of the other parties from whom we purchase water, will renew our contracts upon expiration, or that we will not be subject to significant price increases under any such renewed contracts.

The parties from whom we purchase water maintain significant infrastructure and systems to deliver water to us. Maintenance of these facilities is beyond our control. If these facilities are not adequately maintained or if these parties otherwise default on their obligations to supply water to us, we may not have adequate water supplies to meet our customers' needs.

If we are unable to access adequate water supplies, we may be unable to satisfy all customer demand, which could result in rationing. Rationing may have an adverse effect on cash flow from operations. We can make no guarantee that we will always have access to an adequate supply of water that will meet all required quality standards. Water shortages may affect us in a variety of ways. For example, shortages could:

- adversely affect our supply mix by causing us to rely on more expensive purchased water;
- adversely affect operating costs;
- increase the risk of contamination to our systems due to our inability to maintain sufficient pressure; and
- increase capital expenditures for building pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers and reservoirs and other facilities to conserve or reclaim water.

We may or may not be able to recover increased operating and construction costs on a timely basis, or at all, for our regulated systems through the ratemaking process. We can give no assurance, as to whether we may be able to recover certain of these costs from third parties that may be responsible, or potentially responsible, for any groundwater contamination.

Our water supplies and other aspects of our operations may be affected by climate change.

There is strong scientific consensus that human activity including carbon and methane emissions is impacting many planetary systems such as the heat-trapping capacity of the atmosphere; ocean temperature, circulation, acidity, and volume; weather patterns including the severity and frequency of severe weather events; ambient temperatures; and planetary ice cover. Because scientific investigations have been focused globally, there is tremendous uncertainty over the timing, extent, and types of impacts global climate change may have on our service areas and in our water supplies. Moreover, studies of tree ring data show long periods of drought conditions have occurred prior to significant human impacts in California and prior to our operation. Finally, in the last fifty years, California has experienced at least three severe multi-year droughts. We can give no assurance that any of our plans for water reliability and water shortages, including incorporating projected and potential climate

change risks into our water supply planning activities, will be adequate or capable of effectively addressing any droughts or longer periods of drought conditions or other conditions affecting water quality and availability. Immediate physical risks could affect our operations and intensify over time as climate change worsens. More frequent flooding, wildfires, sea level rise, rising or falling groundwater levels, and uneven ground level sinking could damage our assets, including pressurized mains and other pipelines, wells, treatment facilities, and other infrastructure. Wildfires and changes in rainfall may also affect water quality, and both higher temperatures and wildfires can pose risks to employee safety. Farther into the mid-century and late-century horizon, temperature increases may cause declines in snowpack storage, and droughts could decrease surface water supply availability and groundwater recharge while causing increased outdoor demands, which, in each case, could adversely impact our ability to source adequate water supply to meet the needs of our customers.

Additional climate-related risks may influence our approach as we support the transition to a low-carbon economy. Transition risks include changes in the market and consumer demands, such as differences in generational behaviors, shifts in population locations due to different weather patterns, and variations in water needs and customer groups. Regulatory risks, such as emission trading systems and carbon taxes, may also financially affect our business. Additionally, federal and state regulations present requirements for managing water supplies and limiting impacts on local wildlife, while regional plans and legislation may directly affect how we address water issues.

We also periodically review the climate change plans of our wholesalers to determine whether alternative supplies may be necessary in the future. However, we can give no assurance that replacement water supplies will be available at a reasonable cost or a cost acceptable to our customers and Commissions.

Natural disasters, climate change, economic conditions, and other factors may change the population in our service areas.

In the event that some outside factor such as a wildfire, flood, changed climate pattern, actual or threatened public health emergency, or change in the local economy reduces or eliminates our customer base in a service area, or negatively affects the ability of a customer to pay, we could face unrecoverable costs. In those circumstances, the remaining customers might not be able to pay for the operating costs or capital costs of the water system. We may not be able to recover capital costs of property that is no longer used or useful in utility service. We may also encounter an increase in bad debt expense in times of economic difficulty. For example, we experienced an increase in bad debt expense in 2022, which we believe was due to economic impact of the COVID-19 pandemic. Although we would likely seek permission to recover any such future costs through rate increases on remaining customers or in statewide rates, we can give no assurance that the Commissions would approve rate increases to enable us to recover these costs.

Wastewater operations entail significant risks.

Wastewater collection and treatment involve many risks associated with damage to the environment, and we anticipate that wastewater collection and treatment will become an increasing significant part of our business. If collection or treatment systems fail or do not operate properly, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing damage or injury to property, aquatic life, or human life. Our results of operations and financial condition could be materially and adversely affected by liabilities resulting from such damage.

Demand for our water is subject to various factors and is affected by seasonal fluctuations.

Demand for our water during the warmer, dry months is generally greater than during cooler or rainy months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems, and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. If temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease. Under the MWRAM mechanism, lower water usage in our California operations affects our cash flows in the year of usage, but results in higher cash flows in the following years.

In addition, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water reserves are sufficient to serve our customers during these drought conditions. The Commissions may not allow surcharges to collect lost revenues caused by customers' conservation during a drought. Regardless of whether we may surcharge our customers during a conservation period, they may use less water even after a drought has passed because of conservation patterns developed during the drought. Furthermore, our customers may wish to use recycled water as a substitute for potable water. If rights are granted to others to serve our customers recycled water, there will likely be a decrease in demand for our water.

Finally, changes in prevailing weather patterns due to climate change may affect customer demand. If increased ambient temperatures affect our service areas, water used for irrigation and cooling may increase. If rainfall patterns change, our customers may change their patterns of water use including the amount of outdoor irrigation and the type of landscape they install. Government agencies may also mandate changes to customer irrigation or landscape patterns in response to changes in weather and climate.

Changes in water supply costs affect our operations.

The cost to obtain water for delivery to our customers varies depending on the sources of supply, wholesale suppliers' prices, the quality of water required to be treated and the quantity of water produced to fulfill customer water demand. Our source of supply varies among our operating districts. Certain districts obtain all of their supply from wells; some districts purchase all of the supply from wholesale suppliers; and other districts obtain the supply from a combination of wells and wholesale suppliers. A small portion of supply comes from surface sources and is processed through Company-owned water treatment plants. On average, slightly more than half of the water we deliver to our customers is pumped from wells or received from a surface supply with the remainder purchased from wholesale suppliers. Water purchased from suppliers usually costs us more than surface supplied or well pumped water. The cost of purchased water for delivery to customers represented 31.2% of our total operating costs in 2023 and in 2022. Water purchased from suppliers will require renewal of our contracts upon expiration and may result in significant price increases under any such renewed contracts.

Wholesale water suppliers may increase their prices for water delivered to us based on factors that affect their operating costs. Purchased water rate increases are beyond our control. In California, our ability to recover increases in the cost of purchased water is expected to change with the adoption of the ICBA, which is pending approval of the 2021 GRC. With this change, actual per-unit purchased water costs are expected to be compared to authorized per-unit purchased water costs, with variances added to or netted against the variances in purchased power and pump taxes being recorded as a cost recovery. The balance in the ICBA is expected to be collected in the future by billing the ICBA accounts receivable balances over future periods, which may have a short-term negative impact on cash flow.

Dependency upon adequate supply of electricity, certain chemicals, and third-party suppliers of parts and skilled labor could adversely affect our results of operations.

Purchased electrical power is required to operate the wells and pumps needed to supply water to our customers. Although there are back-up power generators to operate a number of wells and pumps in emergencies, an extended interruption in power could affect the ability to supply water. In the past, California has been subject to rolling power blackouts due to insufficient power supplies. There is no assurance we will not be subject to power blackouts in the future. Additionally, we require sufficient amounts of certain chemicals in order to treat the water we supply. There are multiple sources for these chemicals but an extended interruption of supply could adversely affect our ability to adequately treat our water.

Purchased power is a significant operating expense. During 2023 and 2022, purchased power expense represented 6.4% and 6.2%, respectively, of our total operating costs. These costs are beyond our control and can change unpredictably and substantially. As with purchased water, purchased power costs are expected to be included in the ICBA. Cash flows between rate filings may be adversely affected until the Commission authorizes a rate change, but earnings will be minimally impacted. Cost of chemicals used in the delivery of water is not an element of the ICBA, and therefore, variances in quantity or cost could affect the results of operations.

We rely on outside contractors to supply us with materials and parts critical to the operation of our systems. Should parts and material become unavailable, or should the cost of necessary supplies rise substantially, it could adversely affect our ability to operate or have financial effects that are not recoverable through a regulatory process.

We also rely on outside contractors to complete large construction projects and provide emergency maintenance services. In the event these contractors are unavailable or cannot meet the demands imposed on them, we may face significantly lengthy interruptions of service or delays in constructing capital projects. We may face additional costs to acquire more resources to complete these activities.

Our business requires significant capital expenditures to replace or improve aging infrastructure that are dependent on our ability to secure appropriate funding. If we are unable to obtain sufficient capital or if the rates at which we borrow increase, there would be a negative impact on our results of operations.

The water utility business is capital-intensive. We invest significant funds to replace or improve aging infrastructure such as property, plant, and equipment. In addition, water shortages may adversely affect us by causing us to rely on more purchased water. This could cause increases in capital expenditures needed to build pipelines to secure alternative water sources. In addition, we require capital to grow our business through acquisitions. We fund our capital requirements from cash received from operations, from funds received from developers, by raising equity through common stock issuances or by issuing debt

obligations. We cannot give any assurance that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return. In the event we are unable to obtain sufficient capital, our expansion efforts could be curtailed, which may affect our growth and may affect our future results of operations.

Our ability to access the capital markets is affected by the ratings of certain of our debt securities. Standard & Poor's Rating Agency issues a rating on California Water Service Company's ability to repay certain debt obligations. The credit rating agency could downgrade our credit rating based on reviews of our financial performance and projections or upon the occurrence of other events that could affect our business outlook. Lower ratings by the agency could restrict our ability to access equity and debt capital. We can give no assurance that the rating agency will maintain ratings that allow us to borrow under advantageous conditions and at reasonable interest rates. A future downgrade by the agency could also increase our cost of capital by causing potential investors to require a higher interest rate due to a perceived risk related to our ability to repay outstanding debt obligations.

While the majority of our debt is long term at fixed rates, we do have interest rate exposure in our short-term borrowings, which have variable interest rates. We are also subject to interest rate risks on new financings. However, if interest rates were to increase on a long-term basis, our management believes that customer rates would increase accordingly, subject to approval by the appropriate commission. We can give no assurance that the Commission would approve such an increase in customer rates.

We are obligated to comply with specified debt covenants under certain of our loan and debt agreements. Failure to maintain compliance with these covenants could limit future borrowing, and we could face increased borrowing costs, litigation, acceleration of maturity schedules, and cross default issues. Such actions by our creditors could have a material adverse effect on our financial condition and results of operations.

Our inability to access the capital or financial markets could affect our ability to meet our liquidity needs at reasonable cost and our ability to meet long-term commitments. Changes in economic conditions in our markets could affect our customers' ability to pay for water services. Any of these could adversely affect our results of operations, cash flows, and financial condition.

We rely on our current credit facilities to fund short-term liquidity needs if internal funds are not available from operations. Specifically, given the seasonal fluctuations in demand for our water we commonly draw on our credit facilities to meet our cash requirements at times in the year when demand is relatively low. We also may occasionally use letters of credit issued under our revolving credit facilities. Disruptions in the capital and credit markets could adversely affect our ability to draw on our credit facilities. Our access to funds under our credit facilities is dependent on the ability of our banks to meet their funding commitments.

Many of our customers and suppliers also have exposure to risks that could affect their ability to meet payment and supply commitments. We operate in geographic areas that may be particularly susceptible to declines in the price of real property, which could result in significant declines in demand for our products and services. In the event that any of our significant customers or suppliers, or a significant number of smaller customers and suppliers, are adversely affected by these risks, we may face disruptions in supply, significant reductions in demand for our products and services, inability of customers to pay invoices when due, and other adverse effects that could negatively affect our financial condition, results of operations and/or cash flows.

Our operations and certain contracts for water distribution and treatment depend on the financial capability of state and local governments, and other municipal entities such as water districts. Major disruptions in the financial strength or operations of such entities, such as liquidity limitations, bankruptcy or insolvency, could have an adverse effect on our ability to conduct our business and/or enforce our rights under contracts to which such entities are a party.

We are a holding company that depends on cash flow from our subsidiaries to meet our obligations and to pay dividends on our common stock.

As a holding company, we conduct substantially all of our operations through our subsidiaries and our only significant assets are investments in those subsidiaries. In 2023, 90.6% of our total consolidated operating revenue was derived from the operations of California Water Service Company. As a result, we are dependent on cash flow from our subsidiaries, and California Water Service Company in particular, to meet our obligations and to pay dividends on our common stock.

Our subsidiaries are separate and distinct legal entities and generally have no obligation to pay any amounts due on California Water Service Group's debt or to provide California Water Service Group with funds for dividends. Although there are no contractual or regulatory restrictions on the ability of our subsidiaries to transfer funds to us, the reasonableness of our capital structure is one of the factors considered by state and local regulatory agencies in their ratemaking determinations. Therefore, transfer of funds from our subsidiaries to us for the payment of our obligations or dividends may have an adverse effect on ratemaking determinations. Furthermore, our right to receive cash or other assets upon the liquidation or

reorganization of a subsidiary is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from our subsidiaries in a timely manner, we may be unable to meet our obligations or pay dividends.

We can make dividend payments only from our surplus (the excess, if any, of our net assets over total paid-in capital) or if there is no surplus, the net profits for the current fiscal year or the fiscal year before which the dividend is declared. In addition, we can pay cash dividends only if after paying those dividends we would be able to pay our liabilities as they become due. Owners of our capital stock cannot force us to pay dividends and dividends will only be paid if and when declared by our board of directors (Board). Our Board can elect at any time, and for an indefinite duration, not to declare dividends on our capital stock.

An important element of our growth strategy is the acquisition of water and wastewater systems. Risks associated with potential acquisitions, divestitures or restructurings may adversely affect us.

We seek to acquire or invest in other companies, technologies, services, or products that complement our business from time to time. The execution of our growth strategy exposes us to different risks than those associated with our utility operations. We can give no assurance that we will succeed in finding attractive acquisition candidates or investments, or that we would be able to reach mutually agreeable terms with such parties. In addition, as consolidation becomes more prevalent in the water and wastewater industries, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. If we are unable to find acquisition candidates or investments, our ability to grow may be limited.

Acquisition and investment transactions may result in the issuance of our equity securities that could be dilutive if the acquisition or business opportunity does not develop in accordance with our business plan. They may also result in significant write-offs and an increase in our debt. The occurrence of any of these events could have a material adverse effect on our business, financial condition, and results of operations.

Any of these transactions could involve numerous additional risks, including one or more of the following:

- problems integrating the acquired operations, personnel, technologies, physical and cybersecurity processes, or products with our existing businesses and products;
- liabilities inherited from the acquired companies' prior business operations;
- diversion of management time and attention from our core business to the acquired business;
- failure to retain key technical, management, and other personnel of the acquired business;
- difficulty in retaining relationships with suppliers and customers of the acquired business; and
- difficulty in obtaining required regulatory approvals.

In addition, the businesses and other assets we acquire may not achieve the sales and profitability expected. The occurrence of one or more of these events may have a material adverse effect on our business. There can be no assurance that we will be successful in overcoming these or any other significant risks encountered.

We may not be able to increase or sustain our recent growth rate, and we may not be able to manage our future growth effectively.

We may be unable to continue to expand our business or manage future growth. To successfully manage our growth and handle the responsibilities of being a public company, we must effectively:

- hire, train, integrate, and manage additional qualified engineers for engineering design and construction activities, new business personnel, and financial and information technology personnel;
- retain key management, augment our management team, and retain qualified and certified water and wastewater system operators;
- implement and improve additional and existing administrative, financial and operations systems, procedures and controls;
- expand our technological capabilities; and
- manage multiple relationships with our customers, regulators, suppliers, and other third parties.

If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, satisfy customer requirements, execute our business plan, or respond to competitive pressures.

We have a number of large-volume commercial and industrial customers and a significant decrease in consumption by one or more of these customers could have an adverse effect on our operating results and cash flows.

Our billed revenues and cash flows from operations will decrease if a significant business or industrial customer terminates or materially reduces its use of our water. Approximately \$187.1 million, or 23.7%, of our 2023 water utility revenues was derived from business and industrial customers. In Hawaii, we serve a number of large resorts, which if their water usage was reduced or ceased could have a material impact to our Hawaii operation. The delay between such date and the effective date of the rate relief may be significant and could adversely affect our operating results and cash flows.

Our operating cost and costs of providing services may rise faster than our revenues.

Our ability to increase rates over time is dependent upon approval of such rate increases by the Commissions, or in the case of the City of Hawthorne and the City of Commerce, the City Council, which may be inclined, for political or other reasons, to limit rate increases. However, our costs, which are subject to market conditions and other factors, may increase significantly. The second largest component of our operating costs after water production is made up of salaries and wages. These costs are affected by the local supply and demand for qualified labor. Other large components of our costs are general insurance, workers compensation insurance, employee benefits, and health insurance costs. These costs may increase disproportionately to rate increases authorized by the Commissions and may have a material adverse effect on our future results of operations.

Demand for our stock may fluctuate due to circumstances beyond our control.

We believe that stockholders invest in public utility stocks, in part, because they seek reliable dividend payments. If there is an over-supply of stock of public utilities in the market relative to demand by such investors, the trading price of our securities could decrease. Additionally, if interest rates rise above the dividend yield offered by our equity securities, demand for our stock, and consequently its market price, may decrease. Additional factors that could cause fluctuations in the trading price of our stock include regulatory developments, such as the CPUC's ultimate decision regarding the 2021 GRC; general economic conditions and trends, including inflationary pressures, general economic slowdown or a recession, changes in monetary policy, adverse capital markets activity or macroeconomic conditions as a result of geopolitical conflicts, and the prospect of a shutdown of the U.S. federal government; price and volume fluctuations in the overall stock market; actual or anticipated changes or fluctuations in our results of operations; actual or anticipated changes in the expectations of investors or securities analysts; actual or anticipated developments in other utilities' businesses or the competitive landscape generally; litigation involving us or our industry; major catastrophic events, or sales of large blocks of our stock. A decline in demand for our stock may have a negative impact on our ability to finance capital projects.

Adverse investment returns and other factors may increase our pension liability and pension funding requirements.

A substantial number of our employees are covered by a defined benefit pension plan. At present, the pension plan is underfunded because our projected pension benefit obligation exceeds the aggregate fair value of plan assets. Under applicable law, we are required to make cash contributions to the extent necessary to comply with minimum funding levels imposed by regulatory requirements. The amount of such required cash contribution is based on an actuarial valuation of the plan. The funded status of the plan can be affected by investment returns on plan assets, discount rates, mortality rates of plan participants, pension reform legislation, and a number of other factors. There can be no assurance that the value of our pension plan assets will be sufficient to cover future liabilities. Although we contributed to our pension plan in recent years, it is possible that we could incur a pension liability adjustment, or could be required to make additional cash contributions to our pension plan, which would reduce the cash available for business and other needs.

Labor relations matters could adversely affect our operating results.

At December 31, 2023, 757 of our 1,266 total employees were union employees. Most of our unionized employees are represented by the UWUA, AFL-CIO, except certain engineering and laboratory employees who are represented by the IFPTE, AFL-CIO.

We believe our labor relations are good, but in light of rising costs for health care, pensions, and general inflation, our future contract negotiations may be difficult. Furthermore, changes in applicable law or regulations could have an adverse effect on management's negotiating position with respect to our currently unionized employees and/or employees that decide to unionize in the future. We are subject to a risk of work stoppages and other labor relations matters as we negotiate with the unions to address these issues, which could affect our results of operations and financial condition. We can give no assurance that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

Our operations are geographically concentrated in California and this lack of diversification may negatively affect our operating results.

Although we own facilities in a number of states, 90.6% of our total consolidated operating revenue was generated by our operations located in California in 2023. As a result, we are largely subject to political, regulatory, economic, water supply, weather, labor, and energy cost risks affecting California.

We are also affected by the real property market in California. In order to grow our business, we may need to acquire additional real estate or rights to use real property owned by third parties, the cost of which tends to be higher and more volatile in California than in other states. The value of our assets in California may decline if there is a decline in the California real estate market that results in a significant decrease in real property values.

Our business and financial performance may be adversely affected by high inflation and other macroeconomic conditions.

Inflation has the potential to adversely affect our liquidity, business, financial condition, and results of operations by increasing our overall cost structure, particularly if we are unable to achieve increases in the rates we charge our customers. There is no guarantee that any future rate increase requests will be approved and granted in a timely manner and/or will be sufficient to cover costs for the impact of high inflation. The existence of inflation in the economy has resulted in, and may continue to result in, higher interest rates and capital costs, shipping costs, supply shortages, increased costs of labor, and other similar effects. As a result of inflation, we have experienced, and may continue to experience, cost increases. Although we may take measures to mitigate the impact of this inflation, if these measures are not effective, our business, financial condition, results of operations, and liquidity could be materially adversely affected. Even if such measures are effective, there could be a difference between the timing of when these beneficial actions impact our results of operations and when the cost of inflation is incurred.

We may also be similarly impacted by stagnating or worsening business and economic conditions, including general economic slowdown or a recession, higher interest rates for a prolonged period of time, instability of certain financial institutions, changes in monetary policy, adverse capital markets activity or macroeconomic conditions as a result of geopolitical conflicts, and the prospect of a shutdown of the U.S. federal government.

Municipalities, water districts, and other public agencies may condemn our property by eminent domain action.

State statutes allow municipalities, water districts and other public agencies to own and operate water systems. These agencies are empowered to condemn water systems or real property owned by privately owned public utilities in certain circumstances and in compliance with California and federal law. Additionally, whenever a public agency constructs facilities to extend its utility system into the service area of a privately owned public utility, such an act may constitute the taking of property and require reimbursement to the public utility for its loss. If a public agency were to file an eminent domain lawsuit against us, we would incur substantial attorney's fees, consultant and expert fees, and other costs in considering a challenge to the right to take our utility property and/or its valuation for just compensation, as well as such fees and costs in any subsequent litigation if necessary. If the public agency prevailed and acquired our utility property, we would be entitled to just compensation for our loss, but we would no longer have access to the condemned property or water system. Neither would we be entitled to any portion of revenue generated from the use of such asset going forward.

General Risk Factors

We depend significantly on the services of the members of our management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our management team. The loss of the services of any member of our management team could have an adverse effect on our business as our management team has knowledge of our industry and customers and would be difficult to replace.

We retain certain risks not covered by our insurance policies.

We evaluate our risks and insurance coverage annually or more frequently if circumstances dictate. Our evaluation considers the costs, risks, and benefits of retaining versus insuring various risks as well as the availability of certain types of insurance coverage. Accordingly, we have determined or may determine to self-insure or to not obtain insurance in certain cases, or insurance may not be available at commercially acceptable terms or at all. Furthermore, we are also affected by increases in prices for insurance coverage; in particular, we have been, and will continue to be, affected by rising health insurance costs. Retained risks are associated with deductible limits, partial self-insurance programs, and insurance policy coverage ceilings. If we suffer an uninsured loss, we may be unable to pass all or any portion of the loss on to customers, because our rates are regulated by regulatory commissions. Consequently, uninsured losses may negatively affect our financial condition, liquidity, and results of operations. There can be no assurance that we will not face uninsured losses pertaining to the risks we have retained.

Our enterprise risk management processes may not be effective in identifying and mitigating the risks to which we are subject, or in reducing the potential for losses in connection with such risks.

Our enterprise risk management processes are designed to minimize or mitigate the risks to which we are subject, as well as any losses stemming from such risks. Although we seek to identify, measure, monitor, report, and control our exposure to such risks, and employ a broad and diversified set of risk monitoring and mitigation techniques in the process, those techniques are inherently limited in their ability to anticipate the existence or development of risks that are currently unknown and unanticipated. The ineffectiveness of our enterprise risk management processes in mitigating the impact of known risks or the emergence of previously unknown or unanticipated risks may result in our incurring losses in the future that could adversely affect our financial condition and results of operations.

The accuracy of our judgments and estimates about financial and accounting matters will affect our operating results and financial condition.

We make certain estimates and judgments in preparing our financial statements regarding, among others:

- the useful life of intangible rights;
- the number of years to depreciate certain assets;
- amounts to set aside for uncollectible accounts receivable, inventory obsolescence, and uninsured losses;
- our legal exposure and the appropriate accrual for claims, including medical claims and workers' compensation claims;
- future costs and assumptions for pensions and other postretirement benefits;
- regulatory recovery of regulatory assets;
- possible tax uncertainties; and
- projected collections of WRAM and MCBA receivables or receivables under subsequent recovery mechanisms, such as MWRAM and ICBA.

The quality and accuracy of those estimates and judgments may have an impact on our operating results and financial condition.

In addition, we must estimate unbilled revenues and costs as of the end of each accounting period. If our estimates are not accurate, we would be required to make an adjustment in a future period. Accounting rules permit us to use expense balancing accounts and memorandum accounts that include cost changes to us that are different from amounts incorporated into the rates approved by the Commissions. These accounts result in expenses and revenues being recognized in periods other than in which they occurred.

Our commitments and stakeholder expectations relating to environmental, social, and governance (ESG) considerations may expose us to liabilities, increased costs, reputational harm, and other adverse effects on our business.

We have announced, and may from time to time announce, certain initiatives, including goals, targets, and other objectives, related to ESG matters. These statements reflect our current plans and do not constitute a guarantee that they will be achieved. Our failure to accomplish or accurately track and report on these goals on a timely basis, or at all, could adversely affect our reputation, financial performance, and growth, and expose us to increased scrutiny from the investment community as well as enforcement authorities. In addition, statements about our sustainability goals, targets, and other objectives, and progress against those goals, targets, and other objectives, are or may be based on standards for measuring progress that are still

developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future. Our selection of voluntary disclosure frameworks and standards, and the interpretation or application of those frameworks and standards, have changed and may change from time to time, or differ from those of others. Methodologies for reporting this data have been and may from time to time be updated and previously reported data has been or may be adjusted, as applicable, to reflect improvement in availability and quality of third-party data, changing assumptions, changes in the nature and scope of our operations, and other changes in circumstances, which could result in significant revisions to our current goals, reported progress in achieving such goals, or ability to achieve such goals in the future.

Investor and political advocacy groups, certain institutional investors, investment funds, other market participants, stockholders, and customers have focused increasingly on ESG initiatives, including the goals, targets, and objectives that we announce, and our methodologies and timelines for pursuing them. At the same time, stakeholders and regulators have increasingly expressed or pursued opposing views, legislation, and investment expectations with respect to sustainability initiatives, including the enactment or proposal of "anti-ESG" legislation or policies. Implementing our ESG programs involves risks and uncertainties, including increased costs, requires investments and often depends on third-party performance or data that is outside our control. For example, as a regulated utility, we must obtain approval from our state utilities commissions for our cost structure and capital investments, including capital expenditures for implementing ESG programs, and any changes that may affect customer rates need to be approved within the rate case process with the state public utilities commissions. In our experience, U.S. state utilities commissions have prioritized water affordability and physical climate change risk adaptation over emissions reductions. Additionally, in many areas, purchased water, which is a contributor to our emissions inventory, is the only available water source, and a large majority of these single-source suppliers have not published emission reduction targets. We cannot guarantee that we will achieve our announced ESG targets and commitments, satisfy all stakeholder expectations, or that the benefits of implementing or achieving these goals and initiatives will not surpass their projected costs. Any failure, or perceived failure, to achieve ESG goals and initiatives, as well as to manage ESG risks, adhere to public statements, comply with federal or state ESG laws and regulations or meet evolving and varied stakeholder expectations and standards could result in legal and regulatory proceedings against us and materially adversely affect our business, reputation, results of operations, financial condition, and stock price. Even if we achieve our goals, targets, and objectives, we may not realize all of the benefits that we expected at the time they were established.

Our ability to produce timely and accurate financial statements or comply with applicable laws and regulations could be impaired by a material weakness in our internal control over financial reporting, which could result in loss of investor confidence in the accuracy and completeness of our financial reports and materially adversely affect our results of operations and stock price.

The accuracy of our financial reporting is dependent on the effectiveness of our internal controls. We are required to provide a report from management to our stockholders on our internal control over financial reporting that includes an assessment of the effectiveness of these controls. As disclosed in our 2022 Annual Report on Form 10-K, management concluded that our internal control over financial reporting was not effective as of December 31, 2022 due to a material weakness in our internal control over the completeness of our accounting for regulatory assets and liabilities, specifically controls over the identification of regulatory filings by the Company during the period that are then reviewed to determine their potential accounting impact. This material weakness has since been remediated.

Internal control over financial reporting has inherent limitations, including human error, the possibility that controls could be circumvented or become inadequate because of changed conditions, and fraud. Because of these inherent limitations, internal control over financial reporting might not prevent or detect all misstatements or fraud. If we are unable to maintain effective internal control over financial reporting or disclosure controls and procedures, we could suffer harm to our reputation, incur incremental compliance costs, fail to meet our public reporting requirements on a timely basis, be unable to properly report on our business and our results of operations, or be required to restate our financial statements, which could result in loss of investor confidence in the accuracy and completeness of our financial reports, subject us to litigation or investigations requiring management resources and payment of legal and other expenses, and our results of operations and our stock price could be materially adversely affected.

Item 1B. *Unresolved Staff Comments.*

None.

Item 1C. Cybersecurity.

Governance

The Board and Audit Committee are responsible for overseeing IT and OT risks from cybersecurity threats. The Board recognizes the importance of maintaining the trust and confidence of our customers, employees, and stockholders and the need to protect information stored on our and our vendors' systems, including personal and proprietary data.

Our Senior Vice President of Corporate Services & Chief Risk Officer (SVP & CRO), who reports directly to our Chairman, President & CEO leads a team that is responsible for managing our enterprise-wide information security strategy, policy, standards, architecture, and processes, including the prevention, detection, mitigation, and remediation of cybersecurity incidents. Our SVP & CRO holds a Master's Degree in Business Administration and a Bachelor's Degree in Management Information Systems, has over 25 years of information and operational technology experience, is a certified Project Management Professional, and is a Certified Information Security Manager from the Information Systems Audit and Control Association. He served for one year as the President of the Bay Area InfraGard chapter and four years on its Board. InfraGard is a collaboration between the Federal Bureau of Investigation (FBI) and members of the private sector that promotes the protection of U.S. critical infrastructure and enables the exchange of important information. Our Director of IT Security and Chief Information Security Officer (CISO), who reports to the SVP & CRO, has over 25 years of information technology and 15 years of cybersecurity experience and holds a Certified Information Systems Security Professional certification from the International Information System Security Certification Consortium.

The Board and Audit Committee receive regular reports from management no less than quarterly, and on an ad hoc basis, on information and operational technology risks, including cybersecurity and data security risks, as well as on the status of projects to strengthen our information security systems, assessments of our security program, and the emerging threat landscape.

The SVP & CRO receives reports on cybersecurity threats from the CISO who regularly reviews threat intelligence from various sources including the FBI and Department of Homeland Security (DHS). The SVP & CRO, in conjunction with management, also regularly reviews risk management measures implemented by us to identify and mitigate data security and cybersecurity risks. The significance of these threats is assessed by the SVP & CRO and his team and reported, as appropriate depending on the significance, to the Audit Committee.

Risk Management and Strategy

Our cybersecurity risk management approach is informed in part by multiple standards and regulations for cybersecurity and data privacy, including the following:

- National Institute of Standards and Technology (NIST) Cybersecurity Framework
- NIST 800-171 and Cybersecurity Maturity Model Certification (NIST 800-171 CMMC)
- Payment Card Industry Data Security Standard
- California Privacy Rights Act
- Health Insurance Portability and Accountability Act
- Defense Federal Acquisition Regulations Supplement (DFARS)

We regularly assess our adherence to these standards and maintain programs designed to support our compliance with these requirements. External firms audit our compliance with NIST 800-171 CMMC and DFARS every three years. In addition, our cybersecurity processes have been integrated into our overall enterprise risk management system and specific cybersecurity-focused disclosure controls and procedures have been developed. Management continues to support a variety of practices that are intended to align with recognized frameworks and reflect our approach to assess, identify, and manage material risks from cybersecurity threats:

- Incident response: We have adopted a Cybersecurity Incident Response Plan (IRP) that applies in the event of a cybersecurity threat or incident to provide a standardized framework for investigating, containing, documenting, and mitigating incidents, including reporting findings and keeping senior management and other key stakeholders informed and involved as appropriate. The IRP applies to all Company personnel and third-party contractors, vendors, and partners that perform functions or services that require access to secure our information, and to all devices and network services that are owned or managed by the Company.

- **Regular testing:** We engage a third-party cybersecurity firm to conduct an annual network penetration test on our corporate and supervisory control and data acquisition networks. The annual penetration test enables us to assess our existing security controls to identify weaknesses and eliminate vulnerabilities to defend against cybersecurity threats proactively. Our Information Technology team also conducts rehearsals of our IRP to test and enhance our ability to respond to cybersecurity incidents.
- **Monitoring for risks:** We engage a third party cybersecurity firm to manage our Security Operations Center (SOC) who is responsible for monitoring our network traffic 24/7. Our SOC helps to identify and respond to cybersecurity issues in real time by assessing the level of threats and making recommendations on appropriate actions.
- **Security controls:** We incorporate physical- and software-based preventive, detective, and corrective security controls to prevent or detect unauthorized activities and proactively alert us should an unauthorized activity occur within the organization. Early detection can enable the security team to quickly contain and eradicate the unauthorized activity to reduce the time exposure window and the impact of the incident. Our Security Incident Event Management tool monitors security logs, includes detective controls, and helps to identify irregular activities.
- **Detection and preventative technology:** We have implemented multiple technologies designed to help protect our systems from cybersecurity threats, including an intrusion prevention system, next-generation antivirus program, end point protection system, and a data loss prevention security tool.
- **Regular improvements:** We regularly work to enhance our systems and integrate new information and technology to upgrade our systems. We review and approve software and hardware acquisitions to enhance our ability to detect and manage cybersecurity threats. We also engage the FBI, DHS, and Fusion Center for incident response support and collaborate to share critical information.

Management also shares knowledge to protect our infrastructure and learn from recent developments. In addition to InfraGard, our SVP & CRO is a member of The Northern California Regional Intelligence Center, which is part of the California State Threat Assessment System supporting public safety as an intelligence and information sharing nexus in Northern California. Our CISO also actively participates on the Safety and Security Committee of the National Association of Water Companies to collaborate with members of our industry and learn best practices.

Our employees represent the foundation of cybersecurity protection and are a key line of defense, and we seek to strengthen their ability to target risks by proactively training active employees and contractors each year. We update our online security awareness training annually to review key policies and practices for security. To engage our workforce and inform employees of applicable security topics, we provide a monthly internal cybersecurity newsletter. Our monthly campaign on mock phishing emails is designed to serve as a reminder to employees to refrain from clicking on fraudulent emails disguised as safe content. We also assign enhanced cybersecurity training to employees who have access to potentially sensitive governmental information.

In the last fiscal year, we have not identified risks from known cybersecurity threats, including as a result of any prior cybersecurity incidents, that have materially affected us, but we face certain ongoing cybersecurity risks threats that, if realized, are reasonably likely to materially affect us. Additional information on cybersecurity risks we face is discussed in Part I, Item 1A, "Risk Factors," under the heading "We rely on our information technology (IT) and a number of complex business systems to assist with the management of our business and customer and supplier relationships, and a disruption of these systems, including from cyber-attacks, could adversely affect our business."

Item 2. *Properties.*

Our physical properties consist of offices and water and wastewater facilities to accomplish the production, storage, treatment, and distribution of water and the collection, treatment, and discharge of wastewater. These properties are located in or near the geographic service areas listed above in Item 1, "Business—Geographical Service Areas and Number of Customer Connections at Year-end." Our headquarters, which houses accounting, engineering, information systems, human resources, legal, purchasing, regulatory, water quality, and executive staff, is located in San Jose, California.

The real properties owned are held in fee simple title. Properties owned by Cal Water are subject to the lien of an Indenture of Mortgage and Deed of Trust dated May 11, 2021, June 11, 2019, November 22, 2010, and April 17, 2009 (the California Indenture), securing Cal Water's First Mortgage Bonds, of which \$1,050.0 million was outstanding at December 31, 2023. The California Indenture contains certain restrictions common to such types of instruments regarding the disposition of property and includes various covenants and restrictions. At December 31, 2023, our California utility was in compliance with the covenants of the California Indenture.

Cal Water owns 600 wells and operates ten leased wells. There are 408 owned storage tanks with a capacity of 290 million gallons, one leased storage tanks with a capacity of 0.25 million gallons, 28 managed storage tanks with a capacity of 32 million gallons, and three surface water reservoirs with a capacity of 241 million gallons. Cal Water owns and operates six surface water treatment plants with a combined capacity of 46 million gallons per day. There are 6,743 miles of supply and distribution mains in the various owned and managed systems.

In the leased City of Hawthorne and City of Commerce systems or in systems that are operated under contract for municipalities or private companies, title to the various properties is held exclusively by the municipality or private company.

Hawaii Water owns 29 wells, manages two potable wells, and manages five irrigation wells. There are 38 storage tanks with a storage capacity of 35.8 million gallons. There are 246 miles of supply and distribution lines. Hawaii Water operates seven wastewater treatment facilities with a combined capacity to process approximately 4.8 million gallons per day. There are 77.1 miles of sewer collection mains including force mains.

Washington Water owns 469 wells and manages 5 wells. There are 194 owned storage tanks with a storage capacity of 23.8 million gallons. There are 734 miles of supply and distribution lines. Washington Water operates one wastewater treatment plant with 1.3 miles of sewer collection mains.

New Mexico Water owns 29 wells. There are 29 storage tanks with a storage capacity of 11.0 million gallons. There are 210 miles of supply and distribution lines. New Mexico operates two wastewater treatment facilities with a combined capacity to process 0.62 million gallons per day. There are eight lift stations and 35 miles of sewer collection mains.

Washington Water has long-term bank loans that are secured primarily by utility plant owned by Washington Water.

Texas Water, through its majority ownership of BVRT, owns and operates four wastewater treatment plants. The plants have a treatment capacity of 795,000 gallons per day.

Item 3. *Legal Proceedings.*

Information with respect to this item may be found under the subheading "Commitments and Contingencies" in Note 14 of the Notes to Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Item 4. *Mine Safety Disclosures.*

Not applicable.

PART II

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

Our common stock is traded on the New York Stock Exchange under the symbol "CWT." At December 31, 2023, there were 57,723,738 common shares outstanding. There were 1,767 common stockholders of record as of February 12, 2024.

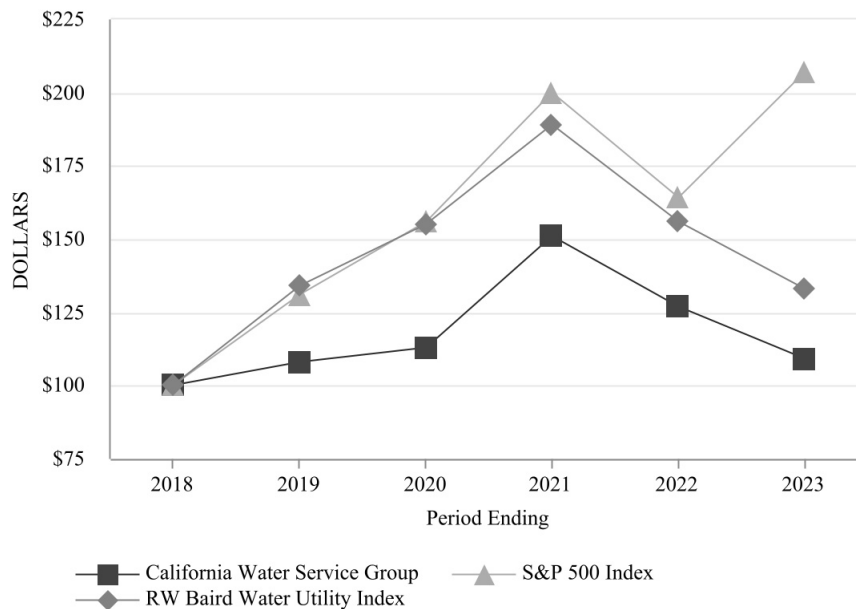
During 2023, we paid a cash dividend of \$1.04 per common share, or \$0.26 per quarter. During 2022, we paid a cash dividend of \$1.00 per common share, or \$0.25 per quarter. On January 25, 2024, our Board declared a quarterly cash dividend of \$0.28 per common share payable on February 23, 2024, to stockholders of record on February 12, 2024. This represents an indicated annual cash dividend of \$1.12, and would be our 57th consecutive year of increasing the annual dividend and marks the 316th consecutive quarterly dividend.

We presently intend to pay quarterly cash dividends in the future consistent with past practices, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board may deem relevant.

Five-Year Performance Graph

The following performance graph compares the changes in the cumulative shareholder return on California Water Service Group's common stock with the cumulative total return on the Robert W. Baird Water Utility Index (which is comprised of Artisan Resources Corporation, American Water Works Company, Inc, American States Water Company, Essential Utilities, SJW Group, and York Water) and the Standard & Poor's 500 Index during the last five years ended December 31, 2023. The comparison assumes \$100 was invested on December 31, 2018, in California Water Service Group's common stock and in each of the forgoing indices and assumes reinvestment of dividends.

Performance Graph Data



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

	2018	2019	2020	2021	2022	2023
California Water Service Group	100	108	113	151	127	109
S&P 500	100	131	156	200	164	207
RW Baird Water Utility Index	100	134	155	189	156	133

An initial \$100 investment in the common stock of California Water Service Group on December 31, 2018 including reinvestment of dividends would be worth \$109 at the end of the 5-year period ending December 31, 2023.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. [Reserved]

Not applicable.

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

The following sections include a discussion of results for fiscal 2023 compared to fiscal 2022 as well as certain 2021 results. The comparative results for fiscal 2022 with fiscal 2021 generally have not been included in this Form 10-K, but may be found in "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Overview

Net Income Attributable to California Water Service Group

In 2023 and 2022, net income attributable to California Water Service Group was \$51.9 million and \$96.0 million, respectively. Earnings per diluted common share decreased \$0.86 from \$1.77 to \$0.91 or 48.6% in 2023.

The \$44.1 million decrease in net income was primarily due to the delayed final decision from the CPUC on Cal Water's pending 2021 GRC to set new revenue, rates, and regulatory mechanisms. The 2021 GRC was originally scheduled to be completed on December 31, 2022 with new revenue, rates, and regulatory mechanisms effective on January 1, 2023. On January 24, 2024, the assigned CPUC ALJs issued a PD on the litigated 2021 GRC, and concurrently, the assigned CPUC Commissioner issued an APD opposing and modifying certain decisions made by the ALJs. The PD issued by the ALJs was closer aligned to Cal Water's requested revenue requirement whereas the APD issued by the assigned Commissioner was closer aligned to the Public Advocates' requested revenue requirement. On February 13, 2024, Cal Water filed a request to change several elements in the PD and APD, including correction of possible 2021 GRC technical issues. We are unable to determine which of the two proposed decisions will be adopted by the CPUC, or if a second alternate proposed decision will be issued by the CPUC. As a result of the uncertainty of the decision that will ultimately be made by the CPUC, we are unable to reasonably estimate the impact on 2023 operating revenue and expenses. The 2021 GRC cumulative adjustment plus interest which is retroactive to January 1, 2023, will be recorded when the final decision is issued by the CPUC.

IRMA, MWRAM, AND DREMA

The IRMA tracks the difference between the current rates that continue to be billed starting January 1, 2023 (considered to be interim rates), and the rates that will eventually be approved pursuant to the CPUC's decision concerning Cal Water's 2021 GRC, plus any additional revenue changes approved since July 1, 2021 (final rates). We expect to recognize the regulatory asset and corresponding operating revenue once the 2021 GRC is approved by the CPUC.

The MWRAM tracks the difference between the revenue received for actual metered sales through tiered volumetric rates and the revenue that would have been received with the same actual metered sales if a uniform rate had been in effect. The MWRAM will be effective retroactive to January 1, 2023. We expect to recognize the regulatory asset and corresponding operating revenue once the 2021 GRC is approved by the CPUC.

The DREMA tracks lost revenues associated with reduced sales revenue when customer demand is affected by requests for voluntary and mandatory usage reductions in California and is in effect for us in 2023 when our regulated service territories in California are under voluntary and mandatory usage reductions. The final value of the DREMA will depend on the resolution of the 2021 GRC. We expect to recognize the regulatory asset and corresponding operating revenue once the 2021 GRC is approved by the CPUC and an advice letter for recovery is approved by the CPUC.

Operating revenue for 2023 does not include any benefit of proposed revenue rate relief that will be tracked in the IRMA or regulatory mechanisms (MWRAM and DREMA) due to the delay in approval of our 2021 GRC.

California Extended Water and Wastewater Arrearages Payment Program

The California Water and Wastewater Arrearages Payment Program was created by the California Legislature to be administered by the State Water Resources Control Board (Water Board) in order to provide relief to community water and wastewater systems for unpaid bills (arrearages) related to the COVID-19 pandemic. The Legislature allocated \$985 million in American Rescue Plan Act of 2021 funds to pay down residential and commercial arrearages accrued between March 4, 2020 and June 15, 2021. In response to the Water Board's survey, Cal Water reported \$20.8 million in eligible customer arrearages and program administrative costs. Cal Water received 100% of the requested amount from the program in January 2022. Cal Water applied \$17.2 million of these funds to identified past due customer balances during the first quarter of 2022 and returned the remaining balance.

In 2023, the California Extended Water and Wastewater Arrearages Payment Program was established and extended the relief period to include arrearages accrued from June 16, 2021 to December 31, 2022. In response to the extended program, Cal Water submitted an application for \$83.0 million in eligible customer arrearages and program administrative costs that was subsequently accepted by the Water Board. Cal Water expects approval of the request in the first quarter of 2024.

Critical Accounting Policies and Estimates

We maintain our accounting records in accordance with accounting principles generally accepted in the United States of America and as directed by the Commissions to which our operations are subject. The process of preparing financial statements requires the use of estimates on the part of management. The estimates used by management are based on historic experience and an understanding of current facts and circumstances. A summary of our significant accounting policies is listed in Note 2 of the Notes to Consolidated Financial Statements. The following sections describe those policies where the level of subjectivity, judgment, and variability of estimates could have a material impact on the financial condition, operating performance, and cash flows of the business.

Revenue Recognition

Revenue from contracts with customers

The Company principally generates operating revenue from contracts with customers by providing regulated water and wastewater services at tariff-rates authorized by the Commissions in the states in which they operate and non-regulated water and wastewater services at rates authorized by contracts with government agencies. Revenue from contracts with customers reflects amounts billed for the volume of consumption at authorized per unit rates, for a service charge, and for other authorized charges.

The Company satisfies its performance obligation to provide water and wastewater services over time as services are rendered. The Company applies the invoice practical expedient and recognizes revenue from contracts with customers in the amount for which the Company has a right to invoice. The Company has a right to invoice for the volume of consumption, for the service charge, and for other authorized charges. The measurement of sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month.

Contract terms are generally short-term and at will by customers and, as a result, no separate financing component is recognized for the Company's collections from customers, which generally require payment within 30 days of billing. The Company applies judgment, based principally on historical payment experience, in estimating its customers' ability to pay.

Certain customers are not billed for volumetric consumption, but are instead billed a flat rate at the beginning of each monthly service period. The amount billed is initially deferred and subsequently recognized over the monthly service period, as the performance obligation is satisfied. The deferred revenue balance or contract liability, which is included in "other accrued liabilities" on the consolidated balance sheets, is inconsequential.

Regulatory balancing account revenue

Regulatory balancing account revenue is revenue related to revenue mechanisms authorized in California by the CPUC, which the Company recognizes as revenue when it is objectively determinable, probable of recovery and expected to be collected within 24 months following the end of the accounting period. Regulatory balancing account revenues are not considered contracts with customers. To the extent that revenue is estimated to be collectible beyond 24 months, recognition is deferred. Due to a delay in resolution of the 2021 GRC, the Company did not recognize a benefit from regulatory revenue mechanisms in 2023. For 2022, the Company's authorized regulatory revenue mechanisms included the WRAM.

The WRAM decoupled revenue from the volume of the sales and allowed the Company to recognize the adopted level of volumetric revenues. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts was recorded as regulatory balancing account revenue. The WRAM concluded on December 31, 2022.

Regulatory balancing accounts also include revenue that is recognized for balancing accounts when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process. These mechanisms, such as the Modified Cost Balancing Account (MCBA), Conservation Expense Balancing Account (CEBA), Pension Cost Balancing Account (PCBA), and Health Cost Balancing Account (HCBA), generally provide for recovery of the adopted levels of expenses for purchased water, purchased power, pump taxes, water conservation program costs, pension, and health care. Variances between adopted and actual costs were recorded as regulatory balancing account revenue in 2022. In 2023, in connection with the CPUC's decision to discontinue the use of the WRAM, the variances for CEBA, HCBA, and PCBA are recorded against the originating expense. The MCBA concluded on December 31, 2022.

The CPUC issued a decision effective August 27, 2020 requiring that Class A companies submitting GRC filings after the effective date be (i) precluded from proposing the use of a full decoupling WRAM in their next GRCs and (ii) allowed the use of MWRAM. In addition, the CPUC's decision allowed for ICBAAs to replace the MCBA. The MWRAM tracks the difference between the revenue received for actual metered sales through the tiered volumetric rate and the revenue that would have been received with the same actual metered sales if a uniform rate had been in effect. The ICBA tracks differences between the authorized per-unit prices of water production costs and actual per-unit prices of water production costs. Cal Water complied with this decision in its 2021 GRC and the MWRAM and ICBAAs are expected to be effective retroactive to January 1, 2023 once approved. The Company did not record a regulatory asset or regulatory liability for the MWRAM or ICBAAs for 2023.

In September 2020, Cal Water filed an Application for Rehearing at the CPUC seeking to reverse the August 27, 2020 CPUC decision. In September 2021, the CPUC denied the Application for Rehearing. On or about October 27, 2021, Cal Water along with four other Class A California water utilities filed Petitions for a Writ of Review with the California Supreme Court (Court). On May 18, 2022, the Court issued writs granting review and ordered the CPUC and other filing parties to submit additional pleadings to the Court. The final pleadings were submitted on January 13, 2023. Cal Water anticipates that the Court will schedule an oral argument before it begins deliberations and issues its decision.

Regulated Utility Accounting

Because we operate almost exclusively in a regulated business, we are subject to the accounting standards for regulated utilities. The Commissions in the states in which we operate establish rates that are designed to permit the recovery of the cost of service and a return on investment. We capitalize and record regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. Regulatory assets are amortized over the future periods that the costs are expected to be recovered. If costs expected to be incurred in the future are currently being recovered through rates, we record those expected future costs as regulatory liabilities. In addition, we record regulatory liabilities when it is probable the Commissions will require a refund to be made to our customers over future periods.

Determining probability requires significant judgment by management and includes, but is not limited to, consideration of testimony presented in regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals.

If we determine that a portion of our assets used in utility operations is not recoverable in customer rates, we would be required to recognize the loss of the disallowed assets.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. We measure deferred tax assets and liabilities at enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on the deferred tax assets and liabilities of a change in tax rate in the period that includes the enactment date. We also assess the likelihood that deferred tax assets will be recovered in future taxable income and, to the extent recovery is not probable, a valuation allowance would be recorded.

We anticipate that future rate actions by the regulatory commissions will reflect revenue requirements for the tax effects of temporary differences recognized, which have previously been passed through to customers. The regulatory commissions have granted the Company permission to reflect the normalization of the tax benefits of the federal accelerated methods and available Investment Tax Credits (ITCs) for all assets placed in service after 1980. ITCs are deferred and amortized over the lives of the related properties for book purposes. The CPUC requires flow through accounting for state deferred taxes.

On December 22, 2017, the U.S. government enacted expansive tax legislation commonly referred to as the TCJA. Among other provisions, the TCJA reduced the federal income tax rate from 35 percent to 21 percent beginning on January 1, 2018 and eliminated bonus depreciation for utilities. The TCJA required the Company to re-measure all existing deferred income tax assets and liabilities to reflect the federal tax rate reduction.

As of December 31, 2023, the TCJA refund liability was \$92.5 million. We continue working with other state regulators to finalize the refund to confirm compliance with federal normalization rules.

Pension and Postretirement Benefits Other Than Pensions (PBOP)

We incur costs associated with our pension and PBOP plans. To measure the expense of these benefits, our management must estimate compensation increases, mortality rates, future health cost increases and discount rates used to value related liabilities and to determine appropriate funding. Different estimates used by our management could result in significant variances in the cost recognized for pension and PBOP plans. The estimates used are based on historical experience, current facts, future expectations, and recommendations from independent advisors and actuaries. We use an investment advisor to provide advice in managing the plan's investments. We anticipate any increases in funding for the pension benefits plans will be recovered in future rate filings, thereby mitigating the financial impact. We believe it is probable that future costs will be recovered in future rates and therefore have recorded a regulatory asset in accordance with generally accepted accounting principles. Changes to the pension benefits actuarial assumptions can significantly affect pension costs, regulatory assets, and liabilities.

The following table reflects the sensitivity of pension amounts reported for the year ended December 31, 2023, to changes in actuarial assumptions:

	Increase/(Decrease) in Pension Benefits Actuarial Assumption		Increase/(Decrease) in 2023 Net Periodic Benefit Cost		Increase/(Decrease) in Projected Benefit Obligation as of December 31, 2023
Dollars in thousands					
Discount rate	(0.5)%	\$	3,494	\$	59,334
Long-term rate of return on plan assets	(0.5)%		3,502		—
Rate of compensation increases	(0.5)%		(3,218)		(15,000)
Cost of living adjustment (1)	(0.23)%		(2,561)		(15,387)
Discount rate	0.5 %		(6,084)		(52,558)
Long-term rate of return on plan assets	0.5 %		(3,502)		—
Rate of compensation increases	0.5 %		3,017		15,884
Cost of living adjustment	0.5 %		4,658		40,412

1. The cost of living adjustment was assumed at 2.23% and has a floor of 2.0%.

Results of Operations

Operating Revenue

Operating revenue in 2023 was \$794.6 million, a decrease of \$51.8 million, or 6.1%, over 2022. Operating revenue in 2022 was \$846.4 million, an increase of \$55.5 million, or 7.0%, over 2021. The sources of change in operating revenue were:

	2023	2022
	Dollars in millions	
Net change due to rate changes, usage, and other (1)	\$ 17.9	\$ 6.2
WRAM revenue (2)	(74.3)	42.7
MCBA revenue (3)	7.4	(11.2)
Other balancing account revenue (4)	4.9	1.3
Deferral of revenue (5)	(7.7)	16.5
Net change	<u>\$ (51.8)</u>	<u>\$ 55.5</u>

- (1) In 2023, the net change due to rate changes, usage, and other in the above table was primarily driven by rate increases in California of \$30.7 million, which was partially offset by a 3.4% decrease in customer usage, which we believe is primarily due to higher winter precipitation in our California service territories and water conservation compared to 2022.
- (2) WRAM revenue is the variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts. In 2023, the WRAM revenue decrease is due to the mechanism concluding as of December 31, 2022; as a result, no WRAM revenue was recorded for 2023. For 2022, we recognized \$74.3 million of WRAM revenue as actual billed volumetric revenue was lower than adopted volumetric revenue.
- (3) MCBA revenue is the variance between adopted water production costs and actual water production costs. In 2023, the MCBA revenue increase is due to the mechanism concluding as of December 31, 2022; as a result, no MCBA revenue was recorded for 2023. For 2022, we recorded a decrease to MCBA revenue of \$7.4 million as actual water production costs were lower than adopted water production costs. As required by the MCBA mechanism, the difference in actual water production costs and adopted water production costs in California was recorded to operating revenue for 2022.
- (4) The other balancing account revenue consists of the pension, conservation and health care balancing account revenues. Pension and conservation balancing account revenues are the differences between actual expenses and adopted rate recovery. Health care balancing account revenue is 85% of the difference between actual health care expenses and adopted rate recovery. In 2023, the adjustments for these balancing accounts were recorded as an increase to the originating expense accounts of \$12.4 million rather than as an operating revenue decrease. In 2022, actual pension and health care costs were below the adopted costs and a decrease to revenue of \$5.9 million was recognized for the difference. This was partially offset by an increase to revenue of \$1.2 million recorded for the conservation balancing account as actual expenses were above adopted.
- (5) The deferral of revenue consists of amounts that are expected to be collected from customers beyond 24 months following the end of the accounting period in which these revenues were recorded. Deferred revenue in 2023 remained flat, while the deferred revenue in 2022 decreased \$7.7 million primarily due to the recognition of deferred balancing account revenue in 2022.

Water Production Expenses

Water production expenses, which consist of purchased water, purchased power, and pump taxes, comprise the largest segment of total operating expenses. Water production costs accounted for 40.2% and 39.7%, of total operating costs in 2023 and 2022, respectively. The rates charged for wholesale water supplies, electricity, and pump taxes are established by various public agencies. As such, these rates are beyond our control.

The table below provides the change in water production expenses during the past 2 years:

	2023			2022		
	Amount	Change	% Change	Amount	Change	% Change
	Dollars in millions					
Purchased water	\$ 223.8	\$ (0.7)	(0.3)%	\$ 224.5	\$ (0.5)	(0.2)%
Purchased power	45.7	1.1	2.5 %	44.6	7.5	20.2 %
Pump taxes	19.0	2.8	17.3 %	16.2	0.9	5.9 %
Total water production expenses	\$ 288.5	\$ 3.2	1.1 %	\$ 285.3	\$ 7.9	2.8 %

The principal factors affecting water production expenses are the quantity, price, and source of the water. Generally, water pumped from wells costs less than water purchased from wholesale suppliers.

The table below provides the amounts, percentage change, and source mix for the respective years:

	2023			2022		
	MG	% of Total	% change from prior year	MG	% of Total	% change from prior year
	Millions of gallons (MG)					
Source:						
Wells	50,363	48.6 %	(4.1)%	52,534	49.1 %	—
Purchased	47,865	46.3 %	(5.2)%	50,473	47.2 %	(5.9)%
Surface	5,256	5.1 %	33.5 %	3,938	3.7 %	(10.1)%
Total	103,484	100.0 %	(3.2)%	106,945	100.0 %	(3.2)%

Purchased water expenses are affected by changes in quantities purchased, supplier prices, and cost differences between wholesale suppliers. The ICBA mechanism is designed to recover all changes in supplier prices for purchased water expenses and will be in effect for Cal Water once the 2021 GRC is resolved.

For 2023, the \$0.7 million decrease in purchased water expenses is mostly due to a 5.2% decrease in purchased quantities offset by a blended purchased water wholesaler rate increase of 5.1%.

For 2023, the \$2.8 million increase in pump taxes is primarily due to increases in pump tax rates.

Purchased power expenses are affected by the quantity of water pumped from wells and moved through the distribution system, rates charged by electric utility companies, and rate structures applied to usage during peak and non-peak times of the day or season. In 2023, purchased power expenses increased \$1.1 million mainly due to an increase in rates from our power providers.

Changes in climate change regulations could increase the cost of power that in turn would result in an increase in the rates our power suppliers charge us. Any change in pricing of our purchased power expenses in California would be recovered from our customers through the ICBA mechanism once the 2021 GRC is resolved. Any change in power costs in other states would be requested to be recovered by the customers in those states. The impact of such regulations is dependent upon the enacted date, the factors that affect our suppliers' cost structure, and their ability to pass the costs to us in their approved tariffs. These items are not known at this time.

Administrative and General Expenses

Administrative and general expenses include payroll related to administrative and general functions, all employee benefits charged to expense accounts, insurance expenses, legal fees, expenses associated with being a public company, and general corporate expenses.

For 2023, administrative and general expenses increased \$9.5 million, or 7.2%, compared to 2022. The increase was mainly due to an increase of \$9.0 million in employee wages primarily driven by annual increases in employee wage rates and an increase in the number of employees.

Other Operations Expenses

The components of other operations expenses include payroll, material and supplies, and contract service costs of operating the regulated water systems, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing, operations of district offices, and water conservation programs.

For 2023, other operations expense decreased \$3.7 million, or 3.2%, compared to 2022. The decrease was primarily due to an increase in deferred costs associated with deferred revenue of \$6.3 million (see deferral of revenue above), a decrease in conservation expenses of \$2.2 million, and a decrease in bad debt costs of \$1.7 million, which was partially offset by an increase in employee labor costs of \$3.6 million and an increase in water quality testing costs of \$1.4 million.

Maintenance

For 2023, maintenance expenses increased \$0.3 million, or 0.8%, compared to 2022 due to increases in reservoir, tank, well, and pumping equipment repairs.

Depreciation and Amortization

For 2023, depreciation and amortization increased \$6.6 million, or 5.8%, compared to 2022 primarily due to utility plant placed in service in 2022.

Income Taxes

For 2023, income tax benefit increased \$18.5 million, or 565.6%, to \$15.2 million compared to 2022. The increase in 2023 was primarily due to a decrease in pre-tax operating income from the impact of the delayed final decision by the CPUC on Cal Water's pending 2021 GRC. The Company's effective combined income tax rate for 2023 was (15.2%) as compared to 6.2% for 2022.

Property and Other Taxes

For 2023, property and other taxes increased \$1.2 million, or 3.4%, compared to 2022. The increase was mostly due to an increase in our assessed property values for utility plant placed in service during the year.

Other Income and Expenses

For 2023, net other income and expenses increased \$12.1 million, or 101.4% compared to 2022. The increase was due primarily to a \$12.1 million increase in the unrealized gains from certain non-qualified benefit plan investments due to market conditions, \$5.7 million increase in other components of net periodic benefit credit, and a \$1.4 million increase in allowance for equity funds used during construction, which was partially offset by a \$2.8 million decrease in non-regulated revenue and a \$5.3 million increase in income tax expense.

Net Interest Expense

For 2023, net interest expense increased \$5.5 million, or 12.4%, compared to 2022. The increase was primarily due to higher short-term borrowing rates and higher outstanding borrowings on our short-term credit facilities.

Rates and Regulation

The following is a summary of 2023 rate filings. A description of the "Type of Filing" can be found in the "Item 1 - Rates and Regulation" section above. California decisions and resolutions may be found on the CPUC website at www.cpuc.ca.gov.

Type of Filing	Decision/Resolution	Effective Date	Increase (Decrease) Annual Revenue	CA District/ Subsidiary
GRC and Offset Filings				
2023 Expense Offset	AL 2465-A	Jan 2023	\$5.1 million	5 Districts
2021 GRC Interim Rates	AL 2475	May 2023	4% or 1.5%	18 Districts
2023 Expense Offset	AL 2488	July 2023	\$24.6 million	11 Districts
Cost of Capital	AL 2491	July 2023	(\$7 million)	21 Districts

Water Supply

Our source of supply varies among our operating districts. Certain districts obtain all of their supply from wells; some districts purchase all of their supply from wholesale suppliers; and other districts obtain supply from a combination of wells and wholesale suppliers. A small portion of supply comes from surface sources and is processed through Company-owned water treatment plants. To the best of management's knowledge, we are meeting water quality, environmental, and other regulatory standards for all Company-owned systems.

California's normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water's rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2024 and thereafter. However, water rationing may be required in future periods, if declared by the state or local jurisdictions. Long-term water supply plans are developed for each of our districts to help assure an adequate water supply under various operating and supply conditions. Some districts have unique challenges in meeting water quality standards, but management believes that supplies will meet current standards using current treatment processes.

Liquidity and Capital Resources

Cash flow from Operations

During 2023, we generated cash flow from operations of \$217.8 million, compared to \$243.8 million during 2022. The decrease in 2023 was primarily due to a decrease in net income that was primarily due to the delayed final decision from the CPUC on Cal Water's pending 2021 GRC and the net receipt of \$17.2 million from the Water Arrears Payment Program in 2022.

The water business is seasonal. Billed revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is the highest. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not sufficient to cover operating costs during the winter period. The increase in cash flow during the summer allows for a pay down of short-term borrowings. Customer water usage can be lower than normal in years when more than normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months. The reduction in water usage reduces cash flow from operations and increases the need for short-term bank borrowings. Aged accounts receivable past due more than 60 days decreased from \$17.6 million as of December 31, 2022 to \$15.5 million as of December 31, 2023 mostly due to the resumption of the customer account write off process and offering of a payment plan option for residential customers in California who have past-due balances larger than \$50 dollars.

Investing Activities

During 2023 and 2022, we used \$383.7 million and \$327.8 million, respectively, of cash for capital expenditures, both Company-funded and developer-funded. Cash used in investing activities fluctuates each year largely due to the availability of construction resources and our ability to obtain construction permits in a timely manner.

Financing Activities

During 2023, we borrowed \$227.8 million, and paid down \$120.0 million on our unsecured revolving credit facilities for general corporate purposes. We also received \$21.2 million of advances and contributions in aid of construction, which was reduced by refunds to developers of \$9.4 million. We paid \$1.8 million for matured First Mortgage Bonds and other long-term debt obligations. In addition, we issued \$115.1 million of Company common stock through our at-the-market equity plan and our employee stock purchase plan.

On March 31, 2023, the Company and Cal Water entered into the Company and Cal Water credit facilities, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of \$600.0 million for a term of five years. The Company and subsidiaries that it designates may borrow up to \$200.0 million under the Company's revolving credit facility (the Company facility). Cal Water may borrow up to \$400.0 million under the Cal Water revolving credit facility (the Cal Water facility). Additionally, the credit facilities may be increased by up to an incremental \$150.0 million under the Cal Water facility and \$50.0 million under the Company facility, subject in each case to certain conditions.

The under-collected net WRAM and MCBA receivable balances were \$64.2 million and \$104.7 million as of December 31, 2023 and 2022, respectively. The decrease of \$40.5 million from December 31, 2022 to December 31, 2023 was primarily due to customer billings during 2023. The under-collected net WRAM and MCBA receivable balances were primarily financed by Cal Water with short-term and long-term financing arrangements to meet operational cash requirements. Interest on the under-collected net WRAM and MCBA receivable balances, the interest recoverable from customers, is limited to the current 90-day commercial paper rate, which is significantly lower than Cal Water's short and long-term financing rates.

At the January 2024 meeting, the Board declared the quarterly dividend, increasing it for the 57th consecutive year. The quarterly dividend was raised from \$0.26 to \$0.28 per common share. This represents an indicated annual rate of \$1.12 per common share. Dividends have been paid for 78 consecutive years. The annual dividends paid per common share in 2023, 2022, and 2021 were \$1.04, \$1.00 and \$0.92, respectively. Earnings not paid as dividends are reinvested in the business for the benefit of stockholders. The dividend payout ratio was 113.8% in 2023, 56.5% in 2022, and 46.9% in 2021 for an average of 72.4% over the 3-year period. Our long-term targeted dividend payout ratio is 60%.

Short-Term Financing

Short-term liquidity is provided by the bank lines of credit described above and by internally generated funds. As of December 31, 2023, there were borrowings of \$180.0 million outstanding on our unsecured revolving lines of credit, compared to \$70.0 million outstanding on our unsecured revolving lines of credit as of December 31, 2022.

Given our ability to access our lines of credit on a daily basis, cash balances are managed to levels required for daily cash needs and excess cash is invested in short-term or cash equivalent instruments. Minimal operating levels of cash are maintained for Washington Water, New Mexico Water, Hawaii Water, and Texas Water.

The Company and subsidiaries that it designates may borrow up to \$200.0 million under the Company facility. Cal Water may borrow up to \$400.0 million under the Cal Water facility; however, all borrowings must be repaid within 12 months unless a different period is required or authorized by the CPUC. The proceeds from the Company and Cal Water facilities may be used for working capital purposes.

The Company and Cal Water facilities contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, the Company and Cal Water facilities contain financial covenants that require the Company and its subsidiaries' consolidated total capitalization ratio not to exceed 66.7% and an interest coverage ratio of three or more (each as defined in the respective credit agreements). As of December 31, 2023, our consolidated total capitalization ratio was 46.4% and the interest coverage ratio was greater than four. In summary, as of such date, we are in compliance with all of the covenant requirements and are eligible to use the full amount of the undrawn portion of the Company and Cal Water facilities.

Long-Term Financing

Long-term financing is accomplished using both debt and equity. Cal Water was authorized to issue \$700.0 million of debt and common stock to finance capital projects and operations by a CPUC decision dated November 5, 2020. In addition, the decision retained approximately \$94.0 million of prior financing authority and determined that refinancing long-term debt did not count against the authorization. The CPUC requires that any loans from Cal Water to the Company be at arm's length. This restriction did not materially affect the Company's ability to meet its cash obligations in 2023. Management does not expect this restriction to have a material impact on the Company's ability to meet its cash obligations in 2024 and beyond.

Long-term financing, which includes First Mortgage Bonds, senior notes, other debt securities, and common stock, has typically been used to replace short-term borrowings and fund capital expenditures. Internally generated funds, after making dividend payments, provide positive cash flow, but have not been at a level to meet the needs of our capital expenditure requirements. Management expects this trend to continue given our capital expenditures plan for the next five years. Some capital expenditures are funded by payments received from developers for contributions in aid of construction or advances for construction. Funds received for contributions in aid of construction are non-refundable, whereas funds classified as advances in construction are refundable. Management believes long-term financing is available to meet our cash flow needs through issuances in both debt and equity instruments.

Additional information regarding the bank borrowings and long-term debt is presented in Notes 7 and 8 in the Notes to Consolidated Financial Statements.

Equity Issuance

On April 29, 2022, we entered into an equity distribution agreement to sell shares of our common stock having an aggregate gross sales price of up to \$350.0 million from time to time depending on market conditions through an at-the-market equity program over the next three years. We intend to use the net proceeds from these sales, after deducting commissions on such sales and offering expenses, for general corporate purposes, which may include working capital, construction and acquisition expenditures, investments and repurchases, and redemptions of securities. Additional information regarding this program is presented in Note 6 of the Notes to Consolidated Financial Statements.

Summarized Financial Information for Guarantors and the Issuer of Guaranteed Securities.

On April 17, 2009, Cal Water (Issuer) issued \$100.0 million aggregate principal amount of 5.500% First Mortgage Bonds due 2040, all of which are fully and unconditionally guaranteed by the Company (Guarantor). Certain subsidiaries of the Company do not guarantee the security and are referred to as Non-guarantors. The Guarantor fully, absolutely, irrevocably and unconditionally guarantees the due and punctual payment when due, whether at stated maturity, by acceleration, by notice of prepayment or otherwise, of the principal of, premium, if any, and interest on the bonds. The bonds rank equally among Cal Water's other first mortgage bonds.

The following tables present summarized financial information of the Issuer subsidiary and the Guarantor. The information presented below excludes eliminations necessary to arrive at the information on a consolidated basis. In presenting the summarized financial statements, the equity method of accounting has been applied to the Guarantor interests in the Issuer. The summarized information excludes financial information of the Non-issuers, including earnings from and investments in these entities.

Summarized Statement of Operations

(in thousands)

	2023		2022	
	Issuer	Guarantor	Issuer	Guarantor
Net sales	\$ 720,577	\$ —	\$ 775,382	\$ —
Gross profit	\$ 449,221	\$ —	\$ 506,890	\$ —
Income from operations	\$ 82,157	\$ 590	\$ 124,464	\$ 363
Equity in earnings of guarantor		\$ 49,998	\$ —	\$ 94,339
Net income	\$ 57,168	\$ 51,376	\$ 92,769	\$ 95,263

Summarized Balance Sheet Information

(in thousands)

	As of December 31, 2023		As of December 31, 2022	
	Issuer	Guarantor	Issuer	Guarantor
Current assets	\$ 213,469	\$ 10,126	\$ 208,962	\$ 31,913
Intercompany receivable from guarantor & non-issuer subsidiaries	3,664	44,882	3,339	34,100
Other assets	479,642	1,190,076	450,668	1,080,720
Long-term intercompany receivable from non-issuer subsidiaries	—	82,610	—	37,869
Net utility plant	3,487,788	—	2,805,242	—
Total assets	\$ 4,184,563	\$ 1,327,694	\$ 3,468,211	\$ 1,184,602
Current liabilities	\$ 351,964	\$ 53,069	\$ 242,538	\$ 35,260
Intercompany payable to non-issuer subsidiaries	—	—	562	—
Long-term debt	1,052,350	—	1,051,994	—
Other liabilities	1,595,852	3,068	1,098,378	2,485
Total Liabilities	\$ 3,000,166	\$ 56,137	\$ 2,393,472	\$ 37,745

Off-Balance Sheet Arrangements

We do not have commitments or obligations, including contingent obligations, arising from arrangements with unconsolidated entities or persons that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, cash requirements, or capital resources even when the arrangement results in no obligation being reported in our consolidated balance sheets.

Contractual Obligations

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and changes in interest rates, as well as action by third parties and other factors, may cause these estimates to change. Therefore, our actual payments in future periods may vary from those presented in the table below.

The following table summarizes our contractual obligations as of December 31, 2023. We generally expect to satisfy these commitments with cash on hand and cash provided by operating activities.

	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Long-term debt (a)	\$ 1,054,396	\$ 377	\$ 70,711	\$ 20,652	\$ 962,656
Interest payments	942,402	44,124	85,116	81,983	731,179
Advances for construction	199,448	10,800	19,662	18,382	150,604
Pension and postretirement benefits (b)	387,158	27,599	61,926	71,892	225,741
Finance lease obligations (c)	4,244	1,034	3,210	—	—
Operating lease obligations	15,691	2,244	3,696	3,007	6,744
Water supply contracts (d)	599,722	33,362	65,420	65,422	435,518
Total contractual obligations	\$ 3,203,061	\$ 119,540	\$ 309,741	\$ 261,338	\$ 2,512,442

- a. Long-term debt payments include annual sinking fund payments on First Mortgage Bonds, maturities of long-term debt, and annual payments on other long-term obligations, exclusive of unamortized debt issuance costs of \$4.9 million.
- b. Pension and postretirement benefits include \$2.8 million of short-term pension obligations.
- c. Finance lease obligations represent total cash payments to be made in the future and includes interest expense of \$0.3 million.
- d. Estimated annual contractual obligations are based on the same payment levels as 2023.

For pension and postretirement benefits other than pensions obligations, see Note 11 of the Notes to the Consolidated Financial Statements.

Advances for construction represent annual contract refunds to developers for the cost of water systems paid for by the developers. The contracts are non-interest bearing, and refunds are generally on a straight-line basis over a 40-year period. System and facility leases include obligations associated with leasing water systems and rents for office space.

For finance and operating lease obligations, see Note 14 of the Notes to the Consolidated Financial Statements.

Cal Water has water supply contracts with wholesale suppliers in 13 of its operating districts and for the two leased systems in Hawthorne and Commerce. For each contract, the cost of water is established by the wholesale supplier and is generally beyond our control. The amount paid annually to the wholesale suppliers is charged to purchased water expense on our statements of operations. Most contracts do not require minimum annual payments and vary with the volume of water purchased. For more details related to water supply contracts, see Note 14 of the Notes to the Consolidated Financial Statements.

Capital Requirements

Capital requirements consist primarily of new construction expenditures for expanding and replacing utility plant facilities and the acquisition of water systems. They also include refunds of advances for construction.

Company-funded and developer-funded utility plant expenditures were \$383.7 million and \$327.8 million in 2023 and 2022, respectively. A majority of capital expenditures was associated with mains and water treatment equipment.

For 2024, our capital program is dependent in part on the timing and nature of regulatory approvals in connection with Cal Water's 2021 GRC. Capital expenditures in California for 2023, excluding developer-funded expenditures, were \$326.5 million. Cal Water proposed to the CPUC spending \$1.0 billion on water infrastructure investments in 2022-2024. Capital expenditures in California are evaluated in the context of the pending GRC and may change as the case moves forward. We expect our annual capital expenditure to continue to increase during the next five years due to increasing needs to replace and maintain infrastructure.

Management expects there will be developer-funded expenditures in 2024 and expects that these expenditures will be financed by developers through refundable advances for construction and non-refundable contributions in aid of construction. Developers are required to deposit the cost of a water construction project with us prior to our commencing construction work, or the developers may construct the facilities themselves and deed the completed facilities to us. Funds are generally received in advance of incurring costs for these projects. Advances are normally refunded over a 40-year period without interest. Future payments for advances received are listed under contractual obligations above. Because non-Company-funded construction activity is solely at the discretion of developers, we cannot predict the level of future activity. The cash flow impact is expected to be minor due to the structure of the arrangements.

Capital Structure

Total equity was \$1,430.3 million at December 31, 2023, compared to \$1,322.4 million at December 31, 2022. The Company sold 2,025,891 and 1,802,063 shares of its common stock in 2023 and 2022, respectively through its at-the-market equity program.

Total capitalization, including the current portion of long-term debt, was \$2,483.8 million at December 31, 2023 and \$2,378.2 million at December 31, 2022. Cal Water repaid \$1.8 million of other long-term debt obligations in 2023 and \$5.4 million 2022 for matured First Mortgage Bonds and other long-term debt obligations. In future periods, the Company intends to issue common stock and long-term debt to finance our operations. The capitalization ratios will vary depending upon the method we choose to finance our operations.

At December 31, capitalization ratios were:

	<u>2023</u>	<u>2022</u>
Equity	57.6 %	55.6 %
Long-term debt	42.4 %	44.4 %

The return (from both regulated and non-regulated operations) on average equity was 3.8% in 2023 compared to 7.7% in 2022. Cal Water does not include construction work in progress in its regulated rate base; instead, Cal Water was authorized to record allowance for funds used during construction (or AFUDC) on construction work in progress, effective January 1, 2017. Construction work in progress for Cal Water was \$253.9 million at December 31, 2023 and \$219.2 million at December 31, 2022.

Acquisitions

There were no significant acquisitions in 2023 or 2022.

Real Estate Program

We own real estate. From time to time, certain parcels are deemed no longer used or useful for water utility operations. Most surplus properties have a low-cost basis. We developed a program to realize the value of certain surplus properties through sale or lease of those properties. The program will be ongoing for a period of several years. There were no significant sales in 2023 and 2022. As sales are dependent on real estate market conditions, future sales, if any, may or may not be at prior year levels.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk.*

We do not participate in hedge arrangements, such as forward contracts, swap agreements, options, or other contractual agreements to mitigate the impact of market fluctuations on our assets, liabilities, production, or contractual commitments. We operate only in the United States and, therefore, are not subject to foreign currency exchange rate risks.

Interest Rate Risk

We are subject to interest rate risk, although this risk is lessened because we operate in a regulated industry. If interest rates were to increase, management believes customer rates would increase accordingly, subject to Commission approval in future GRC filings. The majority of our debt is long-term at a fixed rate. Interest rate risk does exist on short-term borrowings within our credit facilities, as these interest rates are variable. We also have interest rate risk on new financing, as higher interest cost may occur on new debt if interest rates increase.

Over the next 12 months, none of the \$1,052.8 million of existing long-term debt instruments are expected to mature. Applying a hypothetical 10 percent increase in the rate of interest charged on those borrowings would not have a material effect on our earnings.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of California Water Service Group

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of California Water Service Group and subsidiaries (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of operations, equity, and cash flows, for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company has maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, 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 Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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 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 generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Regulatory Assets and Liabilities - Regulated Utility Accounting— Refer to Notes 2 and 4 to the financial statements

Critical Audit Matter Description

The Company provides regulated utility services under the rules and regulations of the California Public Utilities Commission (the "Commission") in California. The Commission establishes rates that are designed to permit the recovery of the cost of service and a return on investment. The Company's rates are subject to regulatory rate-setting processes including a General Rate Case proceeding. Because the Company operates almost exclusively in a regulated business, the Company is subject to the accounting standards for regulated entities.

The Company capitalizes and records regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. If costs expected to be incurred in the future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities. In addition, the Company records regulatory liabilities when it is probable the Commission will require a refund to be made to the Company's customers over future periods. Determining probability requires significant judgment by management and includes, but is not limited to, consideration of testimony presented in regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals. If the Company determines that a portion of the Company's assets used in utility operations is not recoverable in customer rates, the Company would be required to recognize the loss of the disallowed assets.

We identified regulated utility accounting as a critical audit matter due to the significant judgments made by management in (1) determining the probability that incurred costs will be recovered in future rates and (2) determining the probability the Commission will require a refund to be made to the Company's customers over future periods. Given that management considers regulatory hearings, proposed decisions, and final orders in making significant regulatory utility accounting judgments, auditing these judgments required specialized knowledge of regulatory utility accounting.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the significant regulatory utility accounting judgments in determining the probability that incurred cost will be recovered in future rates and in determining the probability the Commission will require a refund to be made to the Company's customers over future periods included the following, among others:

- We tested the effectiveness of management's controls over the determination of regulatory assets or liabilities and the evaluation of (1) the probability determination of recovery in future rates of costs incurred as regulatory assets, and (2) the probability of a refund over future periods that should be reported as regulatory liabilities.
- We read relevant regulatory orders issued by the Commission for the Company, procedural filings, and other publicly available information, if applicable, to evaluate management's judgments in determining the probability that incurred cost will be recovered in future rates and in determining the probability the Commission will require a refund to be made to the Company's customers over future periods in accounting for regulatory assets and liabilities.
- For regulatory matters in process, we inspected the Company's filings with the Commission, if applicable, that may impact the Company's future rates, to evaluate whether information in such filings was consistent with the significant judgments made by management.
- We evaluated the Company's disclosures related to regulated utility accounting, including the balances recorded and regulatory developments.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California

February 29, 2024

We have served as the Company's auditor since 2008.

CALIFORNIA WATER SERVICE GROUP
Consolidated Balance Sheets

	December 31,	
	2023	2022
(In thousands, except per share data)		
ASSETS		
Utility plant:		
Land	\$ 47,002	\$ 45,861
Depreciable plant and equipment	4,557,964	4,215,619
Construction work in progress	287,596	247,013
Intangible assets	32,921	27,779
Total utility plant	4,925,483	4,536,272
Less accumulated depreciation and amortization	(1,152,228)	(1,063,341)
Net utility plant	3,773,255	3,472,931
Current assets:		
Cash and cash equivalents	39,591	62,100
Restricted cash	45,375	22,925
Receivables:		
Customers, net	59,349	55,079
Regulatory balancing accounts	64,240	66,826
Other, net	16,431	20,932
Unbilled revenue, net	36,999	33,140
Materials and supplies at weighted average cost	16,170	12,564
Taxes, prepaid expenses, and other assets	18,130	21,969
Total current assets	296,285	295,535
Other assets:		
Regulatory assets	257,621	283,620
Goodwill	37,039	36,814
Other	231,333	175,913
Total other assets	525,993	496,347
TOTAL ASSETS	\$ 4,595,533	\$ 4,264,813
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$0.01 par value; 136,000 shares authorized, 57,724 and 55,598 outstanding in 2023 and 2022, respectively	\$ 577	\$ 556
Additional paid-in capital	876,583	760,336
Retained earnings	549,573	556,698
Noncontrolling interests	3,579	4,804
Total equity	1,430,312	1,322,394
Long-term debt, net	1,052,768	1,052,487
Total capitalization	2,483,080	2,374,881
Current liabilities:		
Current maturities of long-term debt, net	672	3,310
Short-term borrowings	180,000	70,000
Accounts payable	157,305	140,986
Regulatory balancing accounts	21,540	12,240
Accrued other taxes	4,591	8,607
Accrued interest	6,625	6,490
Other accrued liabilities	59,606	53,017
Total current liabilities	430,339	294,650
Deferred income taxes	352,762	330,251
Regulatory liabilities	683,717	627,740
Pension	82,920	78,443
Advances for construction	199,448	199,832
Contributions in aid of construction	286,491	285,401
Other long-term liabilities	76,776	73,615
Commitments and contingencies (Note 14)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 4,595,533	\$ 4,264,813

See accompanying Notes to Consolidated Financial Statements.

CALIFORNIA WATER SERVICE GROUP
Consolidated Statements of Operations

	For the Years Ended December 31,		
	2023	2022	2021
(In thousands, except per share data)			
Operating revenue	\$ 794,632	\$ 846,431	\$ 790,909
Operating expenses:			
Operations:			
Purchased water	223,833	224,529	225,020
Purchased power	45,656	44,566	37,112
Pump taxes	19,023	16,169	15,342
Administrative and general	142,235	132,718	126,686
Other operations	112,481	116,172	86,392
Maintenance	31,975	31,715	29,592
Depreciation and amortization	121,212	114,575	108,715
Income tax (benefit) expense	(15,189)	3,262	2,805
Property and other taxes	36,271	35,065	32,475
Total operating expenses	<u>717,497</u>	<u>718,771</u>	<u>664,139</u>
Net operating income	77,135	127,660	126,770
Other income and expenses:			
Non-regulated revenue	18,509	21,276	22,761
Non-regulated expenses	(11,807)	(24,821)	(17,234)
Other components of net periodic benefit credit	20,215	14,476	9,903
Allowance for equity funds used during construction	5,551	4,127	3,186
Gain on sale of non-utility property	—	—	94
Income tax expense on other income and expenses	(8,408)	(3,113)	(1,287)
Net other income	<u>24,060</u>	<u>11,945</u>	<u>17,423</u>
Interest expense:			
Interest expense	52,809	46,686	44,980
Allowance for borrowed funds used during construction	(2,990)	(2,344)	(1,766)
Net interest expense	<u>49,819</u>	<u>44,342</u>	<u>43,214</u>
Net income	51,376	95,263	100,979
Net loss attributable to noncontrolling interests	(535)	(748)	(146)
Net income attributable to California Water Service Group	<u>\$ 51,911</u>	<u>\$ 96,011</u>	<u>\$ 101,125</u>
Earnings per share:			
Basic	\$ 0.91	\$ 1.77	\$ 1.96
Diluted	\$ 0.91	\$ 1.77	\$ 1.96
Weighted average number of common shares outstanding:			
Basic	56,952	54,320	51,633
Diluted	56,983	54,363	51,633

See accompanying Notes to Consolidated Financial Statements.

CALIFORNIA WATER SERVICE GROUP
Consolidated Statements of Equity
For the Years Ended December 31, 2023, 2022 and 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Noncontrolling Interests	Total Equity
	Shares	Amount				
(In thousands)						
Balance at December 31, 2020	50,334	\$ 503	\$ 448,632	\$ 461,146	\$ —	\$ 910,281
Net income (loss)	—	—	—	101,125	(146)	100,979
Issuance of common stock	3,415	34	204,494	—	—	204,528
Repurchase of common stock	(33)	—	(1,767)	—	—	(1,767)
Dividends paid on common stock (\$0.9200 per share)	—	—	—	(47,398)	—	(47,398)
Acquisition of business with noncontrolling interest	—	—	—	—	5,294	5,294
Investment in business with noncontrolling interest	—	—	(238)	—	238	—
Balance at December 31, 2021	53,716	537	651,121	514,873	5,386	1,171,917
Net income (loss)	—	—	—	96,011	(748)	95,263
Issuance of common stock	1,916	19	111,742	—	—	111,761
Repurchase of common stock	(34)	—	(2,013)	—	—	(2,013)
Dividends paid on common stock (\$1.0000 per share)	—	—	—	(54,186)	—	(54,186)
Investment in business with noncontrolling interest	—	—	(514)	—	514	—
Distribution to noncontrolling interest	—	—	—	—	(348)	(348)
Balance at December 31, 2022	55,598	556	760,336	556,698	4,804	1,322,394
Net income (loss)	—	—	—	51,911	(535)	51,376
Issuance of common stock	2,159	21	117,866	—	—	117,887
Repurchase of common stock	(33)	—	(1,844)	—	—	(1,844)
Dividends paid on common stock (\$1.0400 per share)	—	—	—	(59,036)	—	(59,036)
Investment in business with noncontrolling interest	—	—	225	—	(225)	—
Distribution to noncontrolling interest	—	—	—	—	(465)	(465)
Balance at December 31, 2023	57,724	\$ 577	\$ 876,583	\$ 549,573	\$ 3,579	\$ 1,430,312

See accompanying Notes to Consolidated Financial Statements.

CALIFORNIA WATER SERVICE GROUP
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2023	2022	2021
	(In thousands)		
Operating activities:			
Net income	\$ 51,376	\$ 95,263	\$ 100,979
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	123,124	117,364	111,581
Amortization of debt premium and expenses	262	369	366
Changes in normalized deferred income taxes	35,627	26,880	25,200
Change in value of life insurance contracts	(4,919)	7,161	(3,800)
Allowance for equity funds used during construction	(5,551)	(4,127)	(3,186)
Stock-based compensation	2,993	5,161	6,805
Gain on sale of non-utility properties	—	—	(94)
(Recovery) write-off of capital costs	(536)	702	524
Changes in operating assets and liabilities:			
Receivables	42,711	(40,687)	(12,833)
Water Arrearages Payment Program cash received	—	20,836	—
Water Arrearages Payment Program cash returned	—	(3,609)	—
Unbilled revenue	(3,859)	(381)	1,309
Taxes, prepaid expenses, and other assets	654	(5,104)	(2,745)
Accounts payable	9,896	(7,626)	(2,938)
Other current liabilities	(346)	7,941	1,141
Other changes in noncurrent assets and liabilities	(33,615)	23,629	9,409
Net cash provided by operating activities	217,817	243,772	231,718
Investing activities:			
Utility plant expenditures	(383,747)	(327,757)	(293,194)
Proceeds from sale of non-utility properties	—	—	108
Business acquisitions, net of cash acquired	(175)	—	(6,451)
Asset acquisitions	(2,816)	(7,766)	—
Return of investment	—	—	1,000
Purchase of life insurance	(2,681)	(6,688)	(2,335)
Life insurance proceeds	—	6,688	—
Net cash used in investing activities	(389,419)	(335,523)	(300,872)
Financing activities:			
Short-term borrowings	227,792	150,000	200,000
Repayment of short-term borrowings	(120,000)	(115,000)	(535,000)
Issuance of long-term debt, net of debt issuance costs of \$0 for 2023, \$0 for 2022, and \$1,064 for 2021	—	—	278,936
Advances and contributions in aid of construction	21,156	25,822	28,171
Refunds of advances for construction	(9,355)	(9,468)	(10,634)
Retirement of long-term debt	(1,811)	(5,423)	(5,353)
Repurchase of common stock	(1,844)	(2,013)	(1,767)
Issuance of common stock	115,106	106,739	197,723
Dividends paid	(59,036)	(54,186)	(47,398)
Distribution to noncontrolling interest	(465)	(348)	—
Net cash provided by financing activities	171,543	96,123	104,678
Change in cash, cash equivalents, and restricted cash	(59)	4,372	35,524
Cash, cash equivalents, and restricted cash at beginning of year	85,025	80,653	45,129
Cash, cash equivalents, and restricted cash at end of year	\$ 84,966	\$ 85,025	\$ 80,653
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$ 49,145	\$ 43,768	\$ 41,621
Income taxes (net of refunds)	(3,532)	—	3,661
Supplemental disclosure of investing and financing non-cash activities:			
Accrued payables for investments in utility plant	54,382	51,511	57,768
Utility plant contributed by developers	24,203	20,379	19,531
Litigation proceeds for TCP contamination reclassified from liability to depreciable plant and equipment	—	—	9,302

See accompanying Notes to Consolidated Financial Statements.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements
December 31, 2023, 2022, and 2021
Dollar amounts in thousands unless otherwise stated

NOTE 1. ORGANIZATION AND OPERATIONS

California Water Service Group (Company) is a holding company that provides water utility and other related services in California, Washington, New Mexico, Hawaii and Texas through its wholly-owned and non-wholly owned subsidiaries. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water), and Hawaii Water Service Company, Inc. (Hawaii Water) provide regulated utility services under the rules and regulations of their respective state's regulatory commissions (jointly referred to as the Commissions). CWS Utility Services and HWS Utility Services LLC provide non-regulated water utility and utility-related services. TWSC, Inc. (Texas Water) holds regulated and contracted wastewater utilities.

The Company operates in one reportable segment, providing water and water-related utility services.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the Company's accounts and those of its wholly and non-wholly owned subsidiaries. The non-wholly owned subsidiary refers to a 92.0% owned subsidiary of Texas Water and is consolidated using the voting interest model as the Company owns a majority of the voting interests in the non-wholly owned subsidiary. All intercompany transactions and balances have been eliminated from the consolidated financial statements. In the opinion of management, the consolidated financial statements reflect all adjustments that are necessary to provide a fair presentation of the results for the periods covered.

The preparation of the Company's consolidated financial statements in accordance with GAAP 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 consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented. These include, but are not limited to, estimates and assumptions used in determining the Company's regulatory asset and liability balances based upon probability assessments of regulatory recovery, utility plant useful lives, revenues earned but not yet billed, asset retirement obligations, allowance for credit losses, pension and other employee benefit plan liabilities, and income tax-related assets and liabilities. Actual results could differ from these estimates.

Noncontrolling Interests

Noncontrolling interests in the Company's consolidated financial statements represents the 8.0% interest not owned by Texas Water in a consolidated subsidiary. Texas Water obtained control over the subsidiary on May 1, 2021. Since the Company controls this subsidiary, its financial statements are consolidated with those of the Company, and the noncontrolling owner's 8.0% share of the subsidiary's net assets and results of operations is deducted and reported as noncontrolling interests on the consolidated balance sheets and as net loss attributable to noncontrolling interests in the consolidated statements of operations. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company's equity. The Company's net income attributable to California Water Service Group excludes the net loss attributable to the noncontrolling interests.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2023, 2022, and 2021
Dollar amounts in thousands unless otherwise stated

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operating Revenue

The following table disaggregates the Company's operating revenue by source for the years ended December 31, 2023, 2022, and 2021:

	2023	2022	2021
Revenue from contracts with customers	\$ 790,334	\$ 772,616	\$ 765,704
Regulatory balancing account revenue	4,298	73,815	25,205
Total operating revenue	<u>\$ 794,632</u>	<u>\$ 846,431</u>	<u>\$ 790,909</u>

Revenue from contracts with customers

The Company principally generates operating revenue from contracts with customers by providing regulated water and wastewater services at tariff-rates authorized by the Commissions in the states in which they operate and non-regulated water and wastewater services at rates authorized by contracts with government agencies. Revenue from contracts with customers reflects amounts billed for the volume of consumption at authorized per unit rates, for a service charge, and for other authorized charges.

The Company satisfies its performance obligation to provide water and wastewater services over time as services are rendered. The Company applies the invoice practical expedient and recognizes revenue from contracts with customers in the amount for which the Company has a right to invoice. The Company has a right to invoice for the volume of consumption, for the service charge, and for other authorized charges.

The measurement of sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, the Company estimates consumption since the date of the last meter reading and a corresponding unbilled revenue is recognized. The estimate is based upon the number of unbilled days that month and the average daily customer billing rate from the previous month (which fluctuates based upon customer usage).

Contract terms are generally short-term and at will by customers and, as a result, no separate financing component is recognized for the Company's collections from customers, which generally require payment within 30 days of billing. The Company applies judgment, based principally on historical payment experience, in estimating its customers' ability to pay.

Certain customers are not billed for volumetric consumption, but are instead billed a flat rate at the beginning of each monthly service period. The amount billed is initially deferred and subsequently recognized over the monthly service period, as the performance obligation is satisfied. The deferred revenue balance or contract liability, which is included in "other accrued liabilities" on the consolidated balance sheets, is inconsequential.

In the following table, revenue from contracts with customers is disaggregated by class of customers for the years ended December 31, 2023, 2022, and 2021:

	2023	2022	2021
Residential	\$ 463,417	\$ 458,448	\$ 467,365
Business	159,050	153,570	144,565
Multiple residential	67,703	64,481	61,478
Industrial	28,055	26,622	26,569
Public authorities	40,811	41,150	40,501
Other*	31,298	28,345	25,226
Total revenue from contracts with customers	<u>\$ 790,334</u>	<u>\$ 772,616</u>	<u>\$ 765,704</u>

* Other includes accrued unbilled revenue

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2023, 2022, and 2021
Dollar amounts in thousands unless otherwise stated

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Regulatory balancing account revenue

Regulatory balancing account revenue is revenue related to revenue mechanisms authorized in California by the California Public Utilities Commission (CPUC), which the Company recognizes as revenue when it is objectively determinable, probable of recovery and expected to be collected within 24 months following the end of the accounting period. Regulatory balancing account revenues are not considered contracts with customers. To the extent that revenue is estimated to be collectible beyond 24 months, recognition is deferred. Due to a delay in resolution of Cal Water's most recent general rate case filing in July of 2021 (2021 GRC), the Company did not recognize a benefit from regulatory revenue mechanisms in 2023. For 2022, the Company's authorized regulatory revenue mechanisms included the Water Revenue Adjustment Mechanism (WRAM).

The WRAM decoupled revenue from the volume of the sales and allowed the Company to recognize the adopted level of volumetric revenues. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts was recorded as regulatory balancing account revenue. The WRAM concluded on December 31, 2022.

Regulatory balancing accounts also includes revenue that is recognized for balancing accounts when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process. These mechanisms, such as the Modified Cost Balancing Account (MCBA), Conservation Expense Balancing Account (CEBA), Pension Cost Balancing Account (PCBA), and Health Cost Balancing Account (HCBA), generally provide for recovery of the adopted levels of expenses for purchased water, purchased power, pump taxes, water conservation program costs, pensions, and health care. Variances between adopted and actual costs were recorded as regulatory balancing account revenue in 2022. In 2023, in connection with the CPUC's decision to discontinue the use of the WRAM, the variances for CEBA, HCBA, and PCBA are recorded against the originating expense. The MCBA concluded on December 31, 2022.

The CPUC issued a decision effective August 27, 2020 requiring that Class A companies submitting GRC filings after the effective date be (i) precluded from proposing the use of a full decoupling WRAM in their next GRCs and (ii) allowed the use of a Monterey-Style Water Revenue Adjustment Mechanism (MWRAM). In addition, the CPUC's decision allowed for Incremental Cost Balancing Accounts (ICBAs) to replace the MCBA. The MWRAM tracks the difference between the revenue received for actual metered sales through the tiered volumetric rate and the revenue that would have been received with the same actual metered sales if a uniform rate had been in effect. The ICBA tracks differences between the authorized per-unit prices of water production costs and actual per-unit prices of water production costs. Cal Water complied with this decision in its 2021 GRC and the MWRAM and ICBAs will be effective retroactive to January 1, 2023 once approved. The Company did not record a regulatory asset or regulatory liability for the MWRAM or ICBAs for 2023.

In September 2020, Cal Water filed an Application for Rehearing at the CPUC seeking to reverse the August 27, 2020 CPUC decision. In September 2021, the CPUC denied the Application for Rehearing. On or about October 27, 2021, Cal Water along with four other Class A California water utilities filed Petitions for a Writ of Review with the California Supreme Court (Court). On May 18, 2022, the Court issued writs granting review and ordered the CPUC and other filing parties to submit additional pleadings to the Court. The final pleadings were submitted on January 13, 2023. Cal Water anticipates that the Court will schedule an oral argument before it begins deliberations and issues its decision.

Non-Regulated Revenue

The following tables disaggregate the Company's non-regulated revenue by source for the years ended December 31, 2023, 2022, and 2021:

	2023	2022	2021
Operating and maintenance revenue	\$ 12,499	\$ 12,860	\$ 16,276
Other non-regulated revenue	3,506	5,774	3,741
Non-regulated revenue from contracts with customers	16,005	18,634	20,017
Lease revenue	2,504	2,642	2,744
Total non-regulated revenue	<u>\$ 18,509</u>	<u>\$ 21,276</u>	<u>\$ 22,761</u>

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2023, 2022, and 2021
Dollar amounts in thousands unless otherwise stated

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating and maintenance services are provided for non-regulated water and wastewater systems owned by private companies and municipalities. The Company negotiates formal agreements with the customers under which they provide operating, maintenance and customer billing services related to the customers' water system. The formal agreements outline the fee schedule for the services provided. The agreements typically call for a fee-per-service or a flat-rate amount per month. The Company satisfies its performance obligation of providing operating and maintenance services over time as services are rendered; as a result, the Company employs the invoice practical expedient and recognizes revenue in the amount that it has the right to invoice. Contract terms are generally short-term and, as a result, no separate financing component is recognized for its collections from customers, which generally require payment within 30 days of billing.

Other non-regulated revenue primarily relates to services for the design and installation of water mains and other water infrastructure for customers outside the regulated service areas and insurance program administration. In 2022, the Company recorded a gain of \$2.7 million related to Company-owned life insurance as part of "other non-regulated revenue" in the table above.

Lease revenue is not considered revenue from contracts with customers and is recognized following operating lease standards. The Company is the lessor in operating lease agreements with telecommunications companies under which cellular phone antennas are placed on the Company's property. The Company provides the lessee the right to ingress and egress across lessor property to access the antennas. The minimum rents are recognized on a straight-line basis over the terms of the leases, which may span multiple years. The excess rents are recognized over amounts contractually due pursuant to the underlying leases and is included in a deferred receivable account in the accompanying balance sheet. The leases generally have terms of 5 to 10 years, with lessee options to extend the lease for up to 15 years. The exercise of lease renewal options is at the lessee's sole discretion. Most of the Company's lease agreements contain mutual termination options that require prior written notice by either lessee or lessor. A subset of the Company's leases contains variable lease payments that depend on changes in the consumer price index (CPI).

The Company determines if an arrangement is a lease at inception. Generally, a lease agreement exists if the Company determines that the arrangement gives the lessee control over the use of an identified asset and obtains substantially all of the benefits from the identified asset.

Maturities of lease payments to be received are as follows:

Year Ending December 31,	Operating Leases
2024	\$ 3,120
2025	2,210
2026	1,485
2027	575
2028	179

Allowance for Credit Losses

The Company measures expected credit losses for Customer Receivables, Other Receivables, and Unbilled Revenue on an aggregated level. These receivables are generally trade receivables due in one year or less or expected to be billed and collected in one year or less. The expected credit losses for Other Receivables and Unbilled Revenue are inconsequential. Customer receivables include receivables for water and wastewater services provided to residential customers, business, industrial, public authorities, and other customers. The expected credit losses for business, industrial, public authorities, and other customers are inconsequential. The overall risks related to the Company's receivables are low as water and wastewater services are seen as essential services. The estimate for the allowance for credit losses is based on a historical loss ratio, in conjunction with a qualitative assessment of elements that impact the collectability of receivables to determine if the allowance for credit losses should be further adjusted in accordance with the accounting guidance for credit losses. Management contemplates available current information such as changes in economic factors, regulatory matters, industry trends, payment options and programs available to customers, and methods that the Company is able to use to ensure payment.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2023, 2022, and 2021
Dollar amounts in thousands unless otherwise stated

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company reviews its allowance for credit losses using a quantitative assessment, which includes a trend analysis of customer billings and collections, agings by customer class, and unemployment rates. The Company also uses a qualitative assessment, which considers the future collectability on customer outstanding balances, management's estimate of the cash recovery, and a general assessment of the economic conditions in the locations the Company serves. Based on these assessments, the Company adjusts its allowance for credit losses. The Company has also contemplated funds that the Company expects to receive from the California Extended Water and Wastewater Arrearages Payment Program (Program). The Program was created by the California Legislature, is administered by the State Water Resources Control Board and will provide relief to community water and wastewater systems for unpaid bills – arrearages – related to the COVID-19 pandemic. Based on the above assessments, the Company adjusted its allowance for credit losses accordingly.

The following table presents the activity in the allowance for credit losses for the periods ended December 31, 2023, 2022, and 2021:

	2023	2022	2021
Beginning Balance	\$ 5,629	\$ 3,743	5,246
Provision for credit loss expense	2,480	5,887	1,088
Write-offs	(5,795)	(4,380)	(3,113)
Recoveries	540	379	522
Total ending allowance balance	<u>\$ 2,854</u>	<u>\$ 5,629</u>	<u>\$ 3,743</u>

Other Receivables

As of December 31, 2023 and 2022, other receivables were:

	2023	2022
Accounts receivables from developers	\$ 6,391	\$ 7,419
Income tax receivables	1,378	5,496
Other	8,662	8,017
Total other receivables	<u>\$ 16,431</u>	<u>\$ 20,932</u>

Utility Plant

Utility plant is carried at original cost when first constructed or purchased, or at fair value when acquired through acquisition. When depreciable plant is retired, the cost is eliminated from utility plant accounts and such costs are charged against accumulated depreciation. Maintenance of utility plant is charged to operating expenses as incurred. Maintenance projects are not accrued for in advance.

Intangible assets acquired as part of water systems purchased are recorded at fair value. All other intangibles have been recorded at cost and are amortized over their useful life.

The following table represents depreciable plant and equipment as of December 31:

	2023	2022
Equipment	\$ 976,704	\$ 915,322
Office buildings and other structures	354,628	339,682
Transmission and distribution plant	3,226,632	2,960,615
Total	<u>\$ 4,557,964</u>	<u>\$ 4,215,619</u>

CALIFORNIA WATER SERVICE GROUP
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation of utility plant is computed on a straight-line basis over the assets' estimated useful lives including cost of removal of certain assets as follows:

	Useful Lives
Equipment	5 to 50 years
Transmission and distribution plant	40 to 65 years
Office Buildings and other structures	50 years

The provision for depreciation expressed as a percentage of the aggregate depreciable asset balances was 2.81% in 2023, 2.90% in 2022, and 2.96% in 2021.

Allowance for funds used during construction (AFUDC)

The AFUDC represents the capitalized cost of funds used to finance the construction of the utility plant. In general, AFUDC is applied to Cal Water construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated.

The amount of AFUDC related to equity funds and to borrowed funds for 2023, 2022, and 2021 are shown in the table below:

	2023	2022	2021
Allowance for equity funds used during construction	\$ 5,551	\$ 4,127	\$ 3,186
Allowance for borrowed funds used during construction	2,990	2,344	1,766
Total	<u>\$ 8,541</u>	<u>\$ 6,471</u>	<u>\$ 4,952</u>

Asset Retirement Obligation

The Company has a legal obligation to retire wells in accordance with State Water Resources Control Board regulations. In addition, upon decommission of a wastewater plant or lift station, certain wastewater infrastructure would need to be retired in accordance with State Water Resources Control Board regulations. An asset retirement cost and corresponding retirement obligation is recorded when a well or waste water infrastructure is placed into service. As of December 31, 2023 and 2022, the retirement obligation is estimated to be \$39.0 million and \$36.7 million, respectively. The retirement obligation is recorded as part of "Other long-term liabilities" within the Consolidated Balance Sheet. Changes in the retirement obligation only impact the consolidated balance sheets as the Company recognizes a regulatory asset or liability for the timing differences between the recognition of expenses and costs recovered through the ratemaking process.

The following is a reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations, which are included in "Other long-term liabilities" on the consolidated balance sheets as of December 31, 2023 and 2022:

	2023	2022
Obligation at beginning of the year	\$ 36,692	\$ 29,459
Additional liabilities incurred	262	5,444
Liabilities settled	(128)	—
Accretion	2,209	1,789
Obligation at the end of the year	<u>\$ 39,035</u>	<u>\$ 36,692</u>

Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents include highly liquid investments with remaining maturities of three months or less at the time of acquisition. In 2023 and 2022, restricted cash included \$0.4 million of proceeds collected through a surcharge on certain customers' bills plus interest earned on the proceeds and is used to service California Safe Drinking Water Bond obligations. In 2023, restricted cash also included \$43.8 million of committed cash in Texas Water for a pipeline project (see Note 14).

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash within the Consolidated Balance Sheets that total to the amounts shown on the Consolidated Statements of Cash Flows as of December 31:

	2023	2022
Cash and cash equivalents	\$ 39,591	\$ 62,100
Restricted cash	45,375	22,925
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	<u>\$ 84,966</u>	<u>\$ 85,025</u>

Regulatory Assets and Liabilities

Because the Company operates almost exclusively in a regulated business, the Company is subject to the accounting standards for regulated utilities. The Commissions in the states in which the Company operates establish rates that are designed to permit the recovery of the cost of service and a return on investment. The Company capitalizes and records regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. Regulatory assets are amortized over the future periods that the costs are expected to be recovered. If costs expected to be incurred in the future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities. In general, the Company does not earn a return on regulatory assets if the related costs do not accrue interest. Accordingly, the Company earns a return only on its regulatory assets for net WRAM and MCBA, PCBA, HCBA, and IRMA receivables. In addition, the Company records regulatory liabilities when it is probable the Commissions will require a refund to be made to the Company's customers over future periods. As of the December, 31, 2022, the WRAM and MCBA mechanisms concluded.

Determining probability requires significant judgment by management and includes, but is not limited to, consideration of testimony presented in regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals.

If the Company determines that a portion of the Company's assets used in utility operations is not recoverable in customer rates, the Company would be required to recognize the loss of the assets disallowed.

See Note 4 - Regulatory Assets and Liabilities for details of the Company's regulatory assets and liabilities.

Impairment of Long-Lived Assets, Intangibles and Goodwill

The Company's long-lived assets include transmission and distribution plant, equipment, land, buildings, and intangible assets. Long-lived assets, other than land, are depreciated or amortized over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the assets may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner in which the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the uses of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, the Company estimates the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets, and compare that to the carrying value of the asset. If the carrying value is greater than the fair value, then an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value. The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. A variation in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus could have a significant effect on the consolidated financial statements.

Goodwill is measured as the excess of the cost of an acquisition over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. Goodwill is not amortized but instead is reviewed annually in the fourth quarter for impairment or more frequently if impairment indicators arise. The impairment test is performed at the reporting unit level using fair-value based approach in which the fair value of the reporting unit is compared to the reporting unit's carrying value. If the fair value of the reporting unit is less than its carrying amount, then an impairment loss is recognized equal to the difference. The Company recorded no goodwill impairments in 2023, 2022, and 2021.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Debt Premium, Discount and Expense

The premiums, discounts, and issuance expenses on long-term debt are amortized over the original lives of the related debt on a straight-line basis which approximates the effective interest method. Premiums paid on the early redemption of certain debt and the unamortized original issuance discount and expense are amortized over the life of new debt issued in conjunction with the early redemption. Amortization expense included in interest expense for 2023 was \$0.3 million and for each of 2022 and 2021 was \$0.4 million.

Advances for Construction

Advances for construction consist of payments received from developers for installation of water production and distribution facilities to serve new developments. Advances are excluded from rate base for rate setting purposes. Annual refunds are made to developers without interest. Advances of \$199.4 million and \$199.8 million, at December 31, 2023 and 2022, respectively, will be refunded primarily over a 40-year period from the date the advance was received in equal annual amounts.

Estimated refunds of advances are shown in the table below.

Year Ending December 31,	Refunds of Advances
2024	\$ 10,800
2025	10,011
2026	9,651
2027	9,381
2028	9,001
Thereafter	150,604
Total refunds	<u>\$ 199,448</u>

Contributions in Aid of Construction

Contributions in aid of construction represent payments received from developers, primarily for fire protection purposes, which are not subject to refunds. Facilities funded by contributions are included in utility plant, but excluded from rate base. Depreciation related to assets acquired from contributions is charged to the Contributions in Aid of Construction liability account.

Income Taxes

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

Historically the Commissions have reduced revenue requirements for the tax effects of certain originating temporary differences and have allowed recovery of these tax costs as the related temporary differences reverse. The Commissions have granted the Company rate increases to reflect the normalization of the tax benefits of the federal accelerated methods and available Investment Tax Credits (ITC) for all assets placed in service after 1980. ITCs are deferred and amortized over the lives of the related properties for book purposes. The CPUC sets rates utilizing the flow through method of accounting for state income taxes.

With the enactment of the Tax Cuts Jobs Act (TCJA), Contributions in Aid of Construction (CIAC) received from developers after December 22, 2017 became fully taxable for federal income tax purposes. On November 15, 2021, the Infrastructure Investment and Jobs Act was signed into law, which reverses the TCJA treatment of CIAC. Effective January 1, 2021, only the service portion of CIAC is taxable for federal income tax purpose.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting standards for accounting for uncertainty in income taxes allows the inclusion of interest and penalties related to uncertain tax positions as a component of income taxes (see Note 10 - Income Taxes).

Workers' Compensation

For workers' compensation, the Company estimates the liability associated with claims submitted and claims not yet submitted based on historical data. Expenses for workers compensation insurance are included in rates on a pay-as-you-go basis. Therefore, a corresponding regulatory asset has been recorded.

Earnings per Share

The computations of basic and diluted earnings per share are noted below. Basic earnings per share are computed by dividing net income attributable to California Water Service Group by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts were exercised or converted into common stock. Restricted Stock Awards (RSAs) are included in the common shares outstanding because the shares have all the same voting and dividend rights as issued and unrestricted common stock.

	2023	2022	2021
	(In thousands, except per share data)		
Net income	\$ 51,376	\$ 95,263	\$ 100,979
Net loss attributable to noncontrolling interests	(535)	(748)	(146)
Net income attributable to California Water Service Group	<u>\$ 51,911</u>	<u>\$ 96,011</u>	<u>\$ 101,125</u>
Weighted average common shares, basic	56,952	54,320	51,633
Weighted average common shares, dilutive	<u>56,983</u>	<u>54,363</u>	<u>51,633</u>
Earnings per share—basic	<u>\$ 0.91</u>	<u>\$ 1.77</u>	<u>\$ 1.96</u>
Earnings per share—diluted	<u>\$ 0.91</u>	<u>\$ 1.77</u>	<u>\$ 1.96</u>

Stock-based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award. The Company recognizes compensation expense on a straight-line basis over the requisite service period, which is the vesting period.

Comprehensive Income or Loss

Comprehensive income for all periods presented was the same as net income attributable to California Water Service Group.

Accumulated Other Comprehensive Income

The Company did not have any accumulated other comprehensive income or loss transactions as of December 31, 2023 and 2022.

New Accounting Standards

In November 2023, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures which expands annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures about significant segment expenses. ASU 2023-07 is effective for the Company's annual periods beginning January 1, 2024, and for interim periods beginning January 1, 2025, with early adoption permitted. The guidance requires retrospective presentation of all prior periods presented in the financial statements. The Company is currently evaluating the potential effect that the updated standard will have on its financial statement disclosures.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for the Company's annual periods beginning January 1, 2025, with early adoption permitted. The guidance is applied prospectively with the option of retrospective application for each period presented. The Company is currently evaluating the potential effect that the updated standard will have on its financial statement disclosures.

NOTE 3. OTHER INCOME AND EXPENSES

The Company conducts various non-regulated activities as reflected in the table below:

	2023		2022		2021	
	Revenue	Expense	Revenue	Expense	Revenue	Expense
Operating and maintenance	\$ 12,499	\$ 10,786	\$ 12,860	\$ 11,959	\$ 16,276	\$ 16,344
Leases	2,504	26	2,642	46	2,744	230
Design and construction	652	536	416	328	619	611
Meter reading and billing	198	2	534	123	495	79
Interest income	303	—	177	—	171	—
Loss (gain) from non-qualified benefit plan investments	—	(4,919)	—	7,161	—	(3,800)
Other non-regulated income and expenses	2,353	5,376	4,647	5,204	2,456	3,770
Total	<u>\$ 18,509</u>	<u>\$ 11,807</u>	<u>\$ 21,276</u>	<u>\$ 24,821</u>	<u>\$ 22,761</u>	<u>\$ 17,234</u>

Operating and maintenance services and meter reading and billing services are provided for water and wastewater systems owned by private companies and municipalities. The agreements typically call for a fee-per-service or a flat-rate amount per month. Leases have been entered into with telecommunications companies for cellular phone antennas placed on the Company's property. Design and construction services are for the design and installation of water mains and other water infrastructure for others outside the Company's regulated service areas. Third-party insurance program gains and losses are included in other non-regulated income and expenses. In 2022, the Company recorded a gain of \$2.7 million related to Company-owned life insurance as part of "revenue" in "other non-regulated income and expenses" in the table above.

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NOTE 4. REGULATORY ASSETS AND LIABILITIES

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

	Recovery Period	2023	2022
<i>Regulatory Assets</i>			
Property-related temporary differences (tax benefits flowed through to customers)	Indefinite	158,486	143,546
Other accrued benefits	Indefinite	25,363	24,946
Net WRAM and MCBA long-term accounts receivable	Various	10,738	41,558
Asset retirement obligations, net	Indefinite	26,686	24,548
Tank coating	Various	19,602	16,395
IRMA long-term accounts receivable	1-2 years	3,430	3,682
Recoverable property losses	Various	3,121	3,144
PCBA	Various	4,182	19,091
General district balancing account receivable	Various	390	377
Customer assistance program (CAP) and Rate support fund (RSF) accounts receivable	1 year	2,459	2,965
Other regulatory assets	Various	3,164	3,368
Total Regulatory Assets		<u>\$ 257,621</u>	<u>\$ 283,620</u>
<i>Regulatory Liabilities</i>			
Cost of removal		\$ 447,356	\$ 414,061
Future tax benefits due to customers		118,051	131,155
Pension and retiree group health		88,728	58,678
HCBA		3,242	14,318
PCBA		8,972	—
CEBA		1,200	6,036
Net WRAM and MCBA long-term payable		2,071	172
Other components of net periodic benefit cost		10,348	2,475
RSF regulatory liability		2,116	—
Other regulatory liabilities		1,633	845
Total Regulatory Liabilities		<u>\$ 683,717</u>	<u>\$ 627,740</u>

The property-related temporary differences are primarily due to: (i) the difference between book and federal income tax depreciation on utility plant that was placed in service before the regulatory Commissions adopted normalization for rate making purposes; and (ii) certain (state) deferred taxes for which flow through accounting continues to be applied to originating deferred taxes. The regulatory asset will be recovered in rates in future periods as the tax effects of the temporary differences previously flowed-through to customers reverse.

Other accrued benefits are accrued benefits for vacation, self-insured workers' compensation, and directors' retirement benefits.

The net WRAM and MCBA long-term accounts receivable is the under-collected portion of recorded revenues that are not expected to be collected from customers within 12 months.

The asset retirement obligation regulatory asset represents the difference between costs associated with asset retirement obligations and amounts collected in rates. Tank coating represents the maintenance costs for tank coating projects that are recoverable from customers.

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NOTE 4. REGULATORY ASSETS AND LIABILITIES (Continued)

The IRMA long-term accounts receivables is the additional amount the Company would have billed customers in 2020 and 2021 had the 2018 GRC been approved on time.

The CAP and RSF are two programs offered by Cal Water that assist qualifying customers with their monthly water bill. The programs are funded by the customers who do not qualify for the assistance. The CAP and RSF regulatory assets represent the amounts due from customers to fund the CAP and RSF credits that were provided to assist qualifying customers. The RSF regulatory liability represents RSF credits that will be provided to assist qualifying customers. The liability was funded by customers.

Cost of removal represents the cumulative differences between the recorded costs to remove assets and amounts collected in rates for expected costs to remove assets at the end of their estimated useful life. Subsequent to the issuance of the 2022 financial statements, the Company determined the cost of removal obligations previously presented in accumulated depreciation and amortization should have been presented as a regulatory liability. As a result, the consolidated balance sheet as of December 31, 2022, has been adjusted to increase regulatory liabilities and decrease accumulated depreciation and amortization by \$414.1 million. The adjustment does not affect consolidated net income, earnings per share, total equity or cash flows. Management has concluded that the adjustment is immaterial to the previously issued consolidated financial statements.

The future tax benefits due to customers primarily resulted from federal tax law changes enacted by the TCJA on December 22, 2017. The TCJA reduced the federal corporate income tax rate from 35 percent to 21 percent beginning on January 1, 2018, and GAAP requires the Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal tax rate on the enactment date.

The pension and retiree group health regulatory liability represents the over funded obligation of the Company's postretirement benefit plans which the Company expects to refund to customers in the future. These plans are discussed in further detail in Note 11.

The PCBA regulatory asset/liability and the HCBA regulatory liability represent incurred pension and healthcare costs that exceeded/were below the cost recovery in rates and is recoverable/refundable from/to customers. The other components of net periodic benefit cost regulatory liabilities are authorized by the Commissions and are probable for customer refund through the capital program.

The conservation program regulatory liability is for incurred conservation costs that were below the cost recovery in rates and is refundable to customers.

Short-term regulatory assets and liabilities are excluded from the above table. The short-term regulatory assets as of December 31, 2023 and 2022 were \$64.2 million and \$66.8 million, respectively. The short-term regulatory assets, as of December 31, 2023 primarily consisted of net WRAM and MCBA, and PCBA receivables. As of December 31, 2022, the short-term regulatory assets primarily consisted of net WRAM and MCBA, IRMA, and PCBA receivables.

The short-term portion of regulatory liabilities as of December 31, 2023 and 2022 were \$21.5 million and \$12.2 million, respectively. The short-term regulatory liabilities as of December 31, 2023 primarily consisted of TCJA liabilities and HCBA liabilities. As of December 31, 2022, the short-term regulatory liabilities primarily consisted of TCJA liabilities.

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NOTE 5. INTANGIBLE ASSETS AND GOODWILL
Intangible assets

As of December 31, 2023 and 2022, intangible assets that will continue to be amortized and those not amortized were:

	Weighted Average Amortization Period (years)	2023			2022		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:							
Water pumping rights	usage	\$ 1,084	\$ 137	\$ 947	\$ 1,084	\$ 132	\$ 952
Water planning studies	13	19,470	10,214	9,256	16,354	9,222	7,132
Leasehold improvements and other	18	5,128	1,837	3,291	3,192	1,614	1,578
Total		<u>\$ 25,682</u>	<u>\$ 12,188</u>	<u>\$ 13,494</u>	<u>\$ 20,630</u>	<u>\$ 10,968</u>	<u>\$ 9,662</u>
Unamortized intangible assets:							
Perpetual water rights and other		<u>\$ 7,239</u>	<u>\$ —</u>	<u>\$ 7,239</u>	<u>\$ 7,149</u>	<u>\$ —</u>	<u>\$ 7,149</u>

Water pumping rights usage is the amount of water pumped from aquifers to be treated and distributed to customers.

For the year ended December 31, 2023, 2022, and 2021 amortization of intangible assets was \$1.5 million, \$1.5 million, and \$1.4 million, respectively.

Estimated future amortization expense related to intangible assets are shown in the table below:

Year Ending December 31,	Estimated Future Amortization Expense Related to Intangible Assets
2024	\$ 1,839
2025	1,720
2026	1,392
2027	1,144
2028	1,038
Thereafter	6,361
Total	<u>\$ 13,494</u>

Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Beginning balance	\$ 36,814	\$ 36,814
Acquisitions	225	—
Total ending goodwill balance	<u>\$ 37,039</u>	<u>\$ 36,814</u>

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NOTE 6. EQUITY

As of December 31, 2023 and 2022, 57,723,738, and 55,597,855 shares, respectively, of common stock were issued and outstanding.

Effective January 1, 2019, the Company implemented an Employee Stock Purchase Plan (ESPP). Under the ESPP, qualified employees are permitted to purchase the Company's common stock at 90% of the market value of the common stock on the specified stock purchase date. The ESPP is deemed compensatory and compensation costs will be accounted for under ASC 718, Stock Compensation. Employees' payroll deductions for common stock purchases may not exceed 10% of their salaries. Employees may purchase up to 2,000 shares per period provided that the value of the shares purchased in any calendar year may not exceed \$25,000, as calculated pursuant to the ESPP. The Company recorded expense of \$0.3 million for 2023, and \$0.2 million for 2022, and 2021. The Company issued 50,319, 40,095 and 37,460 shares of common stock related to the ESPP in 2023, 2022, and 2021, respectively.

On April 29, 2022, the Company entered into an equity distribution agreement to sell shares of its common stock having an aggregate gross sales price of up to \$350.0 million from time to time depending on market conditions through an at-the-market equity program over the next three years. The Company intends to use the net proceeds from these sales, after deducting commissions on such sales and offering expenses, for general corporate purposes, which may include working capital, construction and acquisition expenditures, investments and repurchases, and redemptions of securities. The Company sold 2,025,891 shares of common stock through its at-the-market equity program and raised proceeds of \$112.7 million, net of \$1.1 million in sales commissions paid in 2023. The Company sold 1,802,063 shares of common stock through its at-the-market equity program and raised proceeds of \$104.6 million net of \$1.1 million in commissions paid under the equity distribution agreement in 2022. The Company also incurred \$0.2 million and \$0.1 million of equity issuance costs in 2023 and 2022, respectively.

As approved by the Company's stockholders at the 2022 Annual Meeting, effective July 26, 2022, the aggregate number of shares of common stock which the Company shall have authority to issue was increased from 68.0 million shares to 136.0 million shares. All of these shares are of one and the same series, namely shares of common stock with par value of \$0.01 per share.

Dividend Reinvestment and Stock Repurchase Plan

The Company has a Dividend Reinvestment and Stock Purchase Plan (DRIP Plan). Under the DRIP Plan, stockholders may reinvest dividends to purchase additional Company common stock without commission fees. The DRIP Plan also allows existing stockholders and other interested investors to purchase Company common stock through the transfer agent up to certain limits. The Company's transfer agent operates the DRIP Plan and purchases shares on the open market to provide shares for the DRIP Plan.

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NOTE 7. SHORT-TERM BORROWINGS

On March 31, 2023, the Company and Cal Water entered into syndicated credit agreements, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of \$600.0 million for a term of five years. The Company and subsidiaries that it designates may borrow up to \$200.0 million under the Company's revolving credit facility (the Company facility). Cal Water may borrow up to \$400.0 million under its revolving credit facility (the Cal Water facility). Additionally, the credit facilities may be increased by up to an incremental \$150.0 million under the Cal Water facility and \$50.0 million under the Company facility, subject in each case to certain conditions. At the Company's or Cal Water's option, as applicable, borrowings under the Company and Cal Water facilities, as applicable, will bear interest annually at a rate equal to (i) the base rate, plus an applicable margin of 0.00% to 0.250%, depending on the Company and its subsidiaries' consolidated total capitalization ratio, or (ii) Term SOFR, plus an applicable margin of 0.800% to 1.250%, depending on the Company and its subsidiaries' consolidated total capitalization ratio.

The Company and Cal Water facilities contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, the Company and Cal Water facilities contain financial covenants governing the Company and its subsidiaries' consolidated total capitalization ratio and interest coverage ratio. As of December 31, 2023, the Company and Cal Water are in compliance with all of the covenant requirements and are eligible to use the full amount of the undrawn portion of the Company and Cal Water facilities, as applicable.

As of December 31, 2023 and 2022, the outstanding borrowings on the Company lines of credit were \$50.0 million and \$35.0 million, respectively. Outstanding borrowings on the Cal Water lines of credit as of December 31, 2023 were \$130.0 million and \$35.0 million as of December 31, 2022. The average borrowing rate for borrowings on the Company and Cal Water lines of credit during 2023 was 6.09% compared to 2.74% for the same period during the prior year.

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NOTE 8. LONG-TERM DEBT

As of December 31, 2023 and 2022, long-term debt outstanding was:

	Series	Interest Rate	Maturity Date	2023	2022
First Mortgage Bonds	ZZZ	2.870 %	2051	\$ 130,000	\$ 130,000
	I	3.020 %	2061	150,000	150,000
	YYY	4.170 %	2059	200,000	200,000
	WWW	4.070 %	2049	100,000	100,000
	VVV	3.400 %	2029	100,000	100,000
	TTT	4.610 %	2056	10,000	10,000
	SSS	4.410 %	2046	40,000	40,000
	QQQ	3.330 %	2025	50,000	50,000
	RRR	4.310 %	2045	50,000	50,000
	PPP	5.500 %	2040	100,000	100,000
	AAA	7.280 %	2025	20,000	20,000
	BBB	6.770 %	2028	20,000	20,000
	CCC	8.150 %	2030	20,000	20,000
	DDD	7.130 %	2031	20,000	20,000
	EEE	7.110 %	2032	20,000	20,000
	III	5.540 %	2023	—	909
	OOO	6.020 %	2031	20,000	20,000
Total First Mortgage Bonds				1,050,000	1,050,909
California Department of Water Resources Loans		1.30% - 1.69%	2027 - 2039	4,195	4,515
Other long-term debt				4,102	5,485
Unamortized debt issuance costs				(4,857)	(5,112)
Total long-term debt, net of unamortized debt issuance costs				1,053,440	1,055,797
Less current maturities of long-term debt, net				672	3,310
Long-term debt, net				<u>\$ 1,052,768</u>	<u>\$ 1,052,487</u>

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NOTE 8. LONG-TERM DEBT (Continued)

Maturities of long-term debt as of December 31, 2023 are as follows:

Year Ending December 31,	Long-term debt*
2024	\$ 377
2025	70,354
2026	357
2027	334
2028	20,318
Thereafter	962,656

* Excludes maturities for finance lease obligations. See note 14 for maturities for finance lease obligations.

On October 4, 2011, Cal Water entered into a finance lease arrangement with the City of Hawthorne to operate the City's water system for a 15-year period. The \$2.4 million and \$3.2 million finance lease liability as of December 31, 2023 and 2022, respectively, is included in other long-term debt and current maturities set forth above.

NOTE 9. OTHER ACCRUED LIABILITIES

As of December 31, 2023 and 2022, other accrued liabilities were:

	2023	2022
Accrued and deferred compensation	\$ 22,512	\$ 23,188
Accrued benefits and workers' compensation claims	8,276	6,953
Unearned revenue and customer deposits	13,488	8,138
Uninsured loss reserve	5,954	5,320
Due to contracts and agencies	2,992	3,101
Current portion of operating lease	962	1,065
Other	5,422	5,252
Total other accrued liabilities	<u>\$ 59,606</u>	<u>\$ 53,017</u>

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NOTE 10. INCOME TAXES

Income tax expense (benefit) consisted of the following:

	Federal	State	Total
2023			
Current	\$ —	\$ 3	\$ 3
Deferred	508	(7,292)	(6,784)
Total income tax	<u>\$ 508</u>	<u>\$ (7,289)</u>	<u>\$ (6,781)</u>
2022			
Current	\$ 1,857	\$ 3	\$ 1,860
Deferred	4,726	(211)	4,515
Total income tax	<u>\$ 6,583</u>	<u>\$ (208)</u>	<u>\$ 6,375</u>
2021			
Current	\$ —	\$ 3,446	\$ 3,446
Deferred	3,322	(2,676)	646
Total income tax	<u>\$ 3,322</u>	<u>\$ 770</u>	<u>\$ 4,092</u>

The Company's December 31, 2023, 2022, and 2021 qualified tax repairs and maintenance deductions totaled \$169.7 million, \$128.0 million, and \$125.5 million, respectively.

At December 31, 2023, the Company had U.S. federal and U.S. state tax net operating loss carry-forwards of approximately \$93.3 million and \$184.0 million respectively. The U.S. federal and U.S. state net operating loss carry-forwards will both expire at various dates beginning in tax year 2028.

The difference between the recorded and the statutory income tax expense is reconciled in the table below:

	2023	2022	2021
Statutory income tax	\$ 9,365	\$ 21,344	\$ 22,065
Increase (reduction) in taxes due to:			
State income taxes net of federal tax benefit	3,718	7,383	7,334
Effect of regulatory treatment of fixed asset differences	(9,478)	(6,274)	(6,327)
Investment tax credits	(74)	(74)	(74)
AFUDC equity	(1,553)	(1,155)	(891)
Stock based stock compensation	677	455	791
TCJA refund	(11,618)	(13,919)	(19,417)
Other	2,182	(1,385)	611
Total income tax	<u>\$ (6,781)</u>	<u>\$ 6,375</u>	<u>\$ 4,092</u>

The effect of regulatory treatment of fixed asset differences includes estimated repair and maintenance deductions and asset related flow through items.

On December 22, 2017, the U.S. government enacted expansive tax legislation commonly referred to as the TCJA. Among other provisions, the TCJA reduces the federal income tax rate from 35 percent to 21 percent beginning on January 1, 2018 and eliminated bonus depreciation for utilities. The TCJA required the Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal tax rate.

As of December 31, 2023, the TCJA refund liability was \$92.5 million. The Company continues working with other state regulators to finalize the refund to confirm compliance with federal normalization rules.

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NOTE 10. INCOME TAXES (Continued)

The deferred tax assets and deferred tax liabilities as of December 31, 2023 and 2022, are presented in the following table:

	2023	2022
Deferred tax assets:		
Developer deposits for contributions in aid of construction	\$ 33,244	\$ 31,589
Net operating loss carry-forward and tax credits	29,406	18,329
Pension liability	16,896	13,860
Income tax regulatory liability	18,364	22,838
Operating leases liabilities	3,796	4,170
Other	3,614	4,264
Total deferred tax assets	105,320	95,050
Deferred tax liabilities:		
Property related basis and depreciation differences	437,224	393,007
WRAM/MCBA and interim rates balancing accounts	4,875	14,192
Operating lease-right to use asset	3,746	4,130
Other	12,237	13,972
Total deferred tax liabilities	458,082	425,301
Net deferred tax liabilities	\$ 352,762	\$ 330,251

Based on historical taxable income and future taxable income projections over the period in which the deferred assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deductible differences.

The following table reconciles the changes in unrecognized tax benefits for the periods ended December 31, 2023, 2022, and 2021:

	2023	2022	2021
Balance at beginning of year	\$ 13,606	\$ 15,850	\$ 13,960
Additions for tax positions taken during current year	2,685	1,955	1,890
Lapse of statute of limitations	—	(4,199)	—
Balance at end of year	\$ 16,291	\$ 13,606	\$ 15,850

The Company does not expect a material change in its unrecognized tax benefits within the next 12 months. The component of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2023, was \$5.0 million, with the remaining balance representing the potential deferral of taxes to later years.

The Company's federal income tax years subject to an examination are from 2017 to 2023 and the state income tax years subject to an examination are from 2013 to 2023.

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NOTE 11. EMPLOYEE BENEFIT PLANS

Savings Plan

The Company sponsors a 401(k) qualified defined contribution savings plan that allows participants to contribute up to 50% of pre-tax compensation. Effective January 1, 2010, the Company matches 75 cents for each dollar contributed by the employee up to a maximum Company match of 6.0% of eligible earnings. Company contributions were \$8.2 million, \$7.1 million, and \$7.4 million for the years 2023, 2022, and 2021, respectively.

Pension Plans

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The accumulated benefit obligations of the pension plan are \$534.7 million and \$505.9 million as of December 31, 2023 and 2022, respectively. The fair value of pension plan assets was \$716.3 million and \$637.3 million as of December 31, 2023 and 2022, respectively.

Prior to 2010, pension payment obligations were generally funded by the purchase of an annuity from a life insurance company. Beginning in 2010, the pension plan trust pays monthly benefits to retirees, rather than the purchase of an annuity.

The Company also maintains an unfunded, non-qualified, supplemental executive retirement plan (SERP). The unfunded SERP accumulated benefit obligations were \$74.1 million and \$69.3 million as of December 31, 2023 and 2022, respectively. Benefit payments under the SERP are paid currently. As a non-qualified plan, the SERP has no plan assets, however, the Company has a Rabbi trust designated to provide funding for SERP obligations. The Rabbi trust holds investments in marketable securities and corporate-owned life insurance. The recorded value of these investments was approximately \$66.7 million and \$59.0 million at December 31, 2023 and 2022, respectively, and is part of "Other" noncurrent assets on the Consolidated Balance Sheets.

Expected payments to be made for the pension and SERP plans are shown in the table below:

Year Ending December 31,	Pension	SERP	Total
2024	\$ 20,301	\$ 2,834	\$ 23,135
2025	21,959	3,104	25,063
2026	23,695	3,381	27,076
2027	25,487	3,712	29,199
2028	27,340	4,024	31,364
2029-2033	165,184	24,590	189,774
Total payments	\$ 283,966	\$ 41,645	\$ 325,611

The expected benefit payments are based upon the same assumptions used to measure the Company's benefit obligation at December 31, 2023, and include estimated future employee service.

The costs of the pension and retirement plans are charged to expense and utility plant. The Company makes annual contributions to fund the amounts accrued for pension cost.

Other Postretirement Plan

The Company provides substantially all active, permanent employees with medical, dental, and vision benefits through a self-insured plan. Employees retiring at or after age 58, along with their spouses and dependents, continue participation in the plan by payment of a premium. Plan assets are invested in mutual funds, short-term money market instruments and commercial paper based upon a similar asset mix to the pension plan. Retired employees are also provided with a \$10,000 dollar life insurance benefit.

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NOTE 11. EMPLOYEE BENEFIT PLANS (Continued)

The Company records the costs of postretirement benefits other than pensions (PBOP) during the employees' years of active service. In 2023, the Company recorded postretirement benefit income of \$2.9 million. In 2022 and 2021, postretirement benefit expense was recorded for \$0.1 million and \$0.2 million, respectively.

The expected benefit payments, net of retiree premiums and Medicare Part D subsidies, are shown in the table below.

Year Ending December 31,	Expected Benefit Payments Before Medicare Part D Subsidy	Effect of Medicare Part D Subsidy on Expected Benefit Payments	Expected Benefit Payments Net of Medicare Part D Subsidy
2024	\$ 4,712	\$ (248)	\$ 4,464
2025	5,011	(275)	4,736
2026	5,353	(302)	5,051
2027	5,782	(329)	5,453
2028	6,234	(358)	5,876
2029-2033	38,176	(2,209)	35,967
Total payments	<u>\$ 65,268</u>	<u>\$ (3,721)</u>	<u>\$ 61,547</u>

Benefit Plan Assets

The Company actively manages pension and PBOP trust (Plan) assets. The Company's investment objectives are:

- Maximize the return on the assets, commensurate with the risk that the Company deems appropriate to meet the obligations of the Plans, minimize the volatility of the pension expense, and account for contingencies;
- Generate a rate of return for the total portfolio that equals or exceeds the actuarial investment rate assumption;

Additionally, the rate of return of the total fund is measured periodically against an index comprised of 35% of the Standard & Poor's Index, 15% of the Russell 2000 Index, 10% of the MSCI EAFE Index, and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index. The index is consistent with the Company's rate of return objective and indicates the Company's long-term asset allocation objective.

The Company applies a risk management framework for managing the risks associated with employee benefit plan trust assets. The guiding principles of this risk management framework are the clear articulation of roles and responsibilities, appropriate delegation of authority, and proper accountability and documentation. Trust investment policies and investment manager guidelines include provisions to ensure prudent diversification, manage risk through appropriate use of physical direct asset holdings and derivative securities, and identify permitted and prohibited investments. The Company retains an investment manager to be the Company's Outsourced Chief Investment Officer (OCIO) and the OCIO was required to make investment decisions for Plan assets within the parameters of the Company's investment policies and guidelines.

The Company's target asset allocation percentages for major categories of the plan assets are reflected in the table below:

	Minimum Exposure	Target	Maximum Exposure
Fixed Income	35 %	40 %	45 %
Total Domestic Equity:	35 %	40 %	45 %
Small/Mid Cap Stocks	5 %	12 %	25 %
Large Cap Stocks	25 %	28 %	45 %
Emerging markets	3 %	6 %	9 %
Non-U.S. Equities	11 %	14 %	17 %

The fixed income category includes money market funds, short-term bond funds, and cash. The majority of fixed income investments range in maturities from less than 1 to 5 years.

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NOTE 11. EMPLOYEE BENEFIT PLANS (Continued)

The Company's target allocation percentages for the PBOP trust is similar to the pension plan.

The Company uses the following criteria to select investment funds:

- Fund past performance;
- Fund meets criteria of Employee Retirements Income Security Act (ERISA);
- Timeliness and completeness of fund communications and reporting to investors;
- Stability of fund management company;
- Fund management fees; and
- Administrative costs incurred by the Plan.

Plan Fair Value Measurements

The fair value measurements standard establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2—Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following tables present the fair value of plan assets by major asset category at December 31, 2023 and 2022:

	December 31, 2023							
	Pension Benefits				Other Benefits			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 407	\$ —	\$ —	\$ 407	\$ 21,891	\$ —	\$ —	\$ 21,891
Domestic Equity: Small/Mid Cap Stocks	—	—	—	—	6,437	—	—	6,437
Domestic Equity: Large Cap Stocks	—	—	—	—	—	—	—	—
Non U.S. Equities	—	—	—	—	7,268	—	—	7,268
Emerging markets	—	—	—	—	3,090	—	—	3,090
Assets measured at net asset value (NAV)	—	—	—	715,866	—	—	—	124,681
Total Plan Assets	\$ 407	\$ —	\$ —	\$ 716,273	\$ 38,686	\$ —	\$ —	\$ 163,367

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NOTE 11. EMPLOYEE BENEFIT PLANS (Continued)

	December 31, 2022							
	Pension Benefits				Other Benefits			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 588	\$ —	\$ —	\$ 588	\$ 18,060	\$ —	\$ —	\$ 18,060
Domestic Equity: Small/Mid Cap Stocks	—	—	—	—	5,654	—	—	5,654
Domestic Equity: Large Cap Stocks	—	—	—	—	—	—	—	—
Non U.S. Equities	—	—	—	—	6,928	—	—	6,928
Emerging markets	—	—	—	—	3,027	—	—	3,027
Assets measured at NAV	—	—	—	636,742	—	—	—	111,017
Total Plan Assets	\$ 588	\$ —	\$ —	\$ 637,330	\$ 33,669	\$ —	\$ —	\$ 144,686

The pension benefits fixed income category includes \$0.4 million and \$0.6 million of money market fund investments as of December 31, 2023 and 2022, respectively. The other benefits fixed income category includes \$0.3 million of money market fund investments as of December 31, 2023 and no money market fund investments as of December 31, 2022.

Assets measured at NAV include investments in commingled funds that are comprised of fixed income and equity securities. These commingled funds are not publicly traded, and therefore no publicly quoted market price is readily available. The values of the commingled funds are measured at estimated fair value, which is determined based on the unit value of the funds and have not been classified in the fair value hierarchy tables above. There are no restrictions on the terms and conditions upon which the investments may be redeemed.

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NOTE 11. EMPLOYEE BENEFIT PLANS (Continued)
Changes in Plan Assets, Benefits Obligations, and Funded Status

The following table reconciles the funded status of the plans with the accrued pension liability and the net postretirement benefit liability as of December 31, 2023 and 2022:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Change in projected benefit obligation:				
Beginning of year	\$ 685,254	\$ 887,477	\$ 101,752	\$ 142,470
Service cost	22,159	34,847	4,489	6,830
Interest cost	34,190	25,596	5,219	4,009
Actuarial (gain) loss (1)	(8,532)	(243,769)	27,208	(49,462)
Benefits paid, net of retiree premiums	(22,302)	(18,897)	(3,935)	(2,095)
End of year	<u>\$ 710,769</u>	<u>\$ 685,254</u>	<u>\$ 134,733</u>	<u>\$ 101,752</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 637,330	\$ 810,469	\$ 144,686	\$ 169,436
Actual return on plan assets	95,280	(171,517)	22,133	(23,326)
Employer contributions	5,965	17,275	189	671
Retiree contributions and Medicare part D subsidies	—	—	2,449	2,176
Benefits paid	(22,302)	(18,897)	(6,557)	(4,421)
Other adjustments	—	—	467	150
Fair value of plan assets at end of year	<u>\$ 716,273</u>	<u>\$ 637,330</u>	<u>\$ 163,367</u>	<u>\$ 144,686</u>
Funded status (2)	\$ 5,504	\$ (47,924)	\$ 28,634	\$ 42,934
Unrecognized actuarial gain	(66,073)	(19,512)	(26,764)	(44,555)
Unrecognized prior service cost	2,680	3,205	1,428	1,583
Net amount recognized	<u>\$ (57,889)</u>	<u>\$ (64,231)</u>	<u>\$ 3,298</u>	<u>\$ (38)</u>

- The actuarial gain for pension and other benefits in 2022 was mainly due to a higher discount rate used in the calculation.
- The short-term portion of the pension benefits was \$2.8 million as of December 31, 2023 and \$2.6 million as of December 31, 2022 and was recorded as part of other accrued liabilities on the Company's Consolidated Balance Sheets.

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NOTE 11. EMPLOYEE BENEFIT PLANS (Continued)

Amounts recognized on the balance sheet consist of:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Noncurrent assets (1)	\$ 91,051	\$ 32,848	\$ 28,634	\$ 42,934
Accrued benefit costs	—	(307)	(1)	(465)
Accrued benefit liability (2)	(85,547)	(80,772)	—	—
Regulatory assets (3)	—	—	—	171
Regulatory liabilities (3)	(63,393)	(16,000)	(25,335)	(42,678)
Net amount recognized	\$ (57,889)	\$ (64,231)	\$ 3,298	\$ (38)

1. Noncurrent assets represent the overfunded status of the employee pension plan and PBOP plan in 2023 and 2022. The amounts are recorded as part of "Other" noncurrent assets on the Consolidated Balance Sheets.
2. Accrued benefit liability represents the underfunded status of the SERP plan in 2023 and 2022. The amounts are recorded as part of "Pension" in the Consolidated Balance Sheets.
3. Changes in the funded status of the plans that would be recorded in accumulated other comprehensive income for an unregulated entity are recorded as a regulatory assets and liabilities as the Company believes it is probable that an amount equal to the regulatory asset or liability will be collected or refunded through the setting of future rates.

Valuation Assumptions

Below are the actuarial assumptions used in determining the benefit obligation for the benefit plans:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Weighted average assumptions as of December 31:				
Discount rate - employee pension plan	5.25 %	5.27 %	—	—
Discount rate - SERP	5.19 %	5.24 %	—	—
Discount rate - other benefits	—	—	5.25 %	5.27 %
Long-term rate of return on plan assets	7.56 %	7.50 %	7.41 %	7.36 %
Rate of compensation increases - employee pension plan	4.25 %	4.28 %	—	—
Rate of compensation increases - SERP	5.00 %	5.00 %	—	—
Cost of living adjustment	2.23 %	2.25 %	—	—

The long-term rate of return assumption is the expected rate of return on a balanced portfolio invested roughly 60% in equities and 40% in fixed income securities. Returns on equity investments were estimated based on estimates of dividend yield and real earnings added to a 2.23% long-term inflation rate. For the pension plans and other benefits, the assumed returns were 8.41% for domestic equities and 9.00% for foreign equities. Returns on fixed-income investments were projected based on investment maturities and credit spreads added to a 2.23% long-term inflation rate. For the pension and other benefit plans, the assumed returns were 5.43% and 5.15%, respectively, for fixed income investments. The Company is using a long-term rate of return of 7.56% for the pension plan and 7.41% for the other benefit plan.

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NOTE 11. EMPLOYEE BENEFIT PLANS (Continued)

Components of Net Periodic Benefit Cost

Net periodic benefit costs for the pension and other postretirement plans for the years ended December 31, 2023 and 2022, included the following components:

	Pension Plan			Other Benefits		
	2023	2022	2021	2023	2022	2021
Service cost	\$ 22,159	\$ 34,847	\$ 35,055	\$ 4,489	\$ 6,830	\$ 6,072
Interest cost	34,190	25,596	21,667	5,219	4,009	3,217
Expected return on plan assets	(53,684)	(45,228)	(39,472)	(10,543)	(9,927)	(8,769)
Net amortization and deferral	(3,043)	5,781	10,003	(2,019)	(824)	(293)
Net periodic (income) cost	<u>\$ (378)</u>	<u>\$ 20,996</u>	<u>\$ 27,253</u>	<u>\$ (2,854)</u>	<u>\$ 88</u>	<u>\$ 227</u>

Service cost portion of the pension plan and other postretirement benefits is recognized in administrative and general within the Consolidated Statements of Operations. Other components of net periodic benefit costs include interest costs, expected return on plan assets, amortization of prior service costs, and recognized net actuarial loss and are reported together as other components of net periodic benefit cost within the Consolidated Statements of Operations.

Below are the actuarial assumptions used in determining the net periodic benefit costs for the benefit plans, which uses the end of the prior year as the measurement date:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Weighted average assumptions as of December 31:				
Discount rate - employee pension plan	5.27 %	3.28 %	—	—
Discount rate - SERP	5.24 %	3.18 %	—	—
Discount rate - other benefits	—	—	5.27 %	3.27 %
Long-term rate of return on plan assets	7.50 %	6.34 %	7.36 %	5.88 %
Rate of compensation increases - employee pension plan	4.28 %	4.25 %	—	—
Rate of compensation increases - SERP	5.00 %	5.00 %	—	—
Cost of living adjustment	2.25 %	2.20 %	—	—

The health care cost trend rate assumption has a significant effect on the amounts reported. For 2023 measurement purposes, the Company assumed a 6.2% annual rate of increase in the per capita cost of covered benefits with the rate decreasing to 6.0% by 2024, then gradually grading down to 4.0% by 2060.

The Company intends to make annual contributions that meet the funding requirements of ERISA. The Company estimates in 2024 that the annual contribution to the pension plans will be \$0.7 million and the annual contribution to the other postretirement plan will be \$0.2 million.

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NOTE 12. STOCK-BASED COMPENSATION PLANS

The Company's equity incentive plan was approved and amended by stockholders on April 27, 2005 and May 20, 2014. The Company is authorized to issue awards up to 2,000,000 shares of common stock.

During 2023, the Company granted RSAs of common stock to Officers and to the Board of Directors (Board). An RSA share represents the right to receive a share of the Company's common stock and is valued based on the fair market value of the Company's common stock at the date of grant. RSAs granted to Officers vest over 36 months with the first year cliff vesting. In general, RSAs granted to Board vest at the end of 12 months. The RSAs are recognized as expense evenly over 36 months for the shares granted to Officers and 12 months for the shares granted to Board. As of December 31, 2023, there was approximately \$1.8 million of total unrecognized compensation cost related to RSAs. The cost is expected to be recognized over a weighted average period of 1.6 years.

A summary of the status of the outstanding RSAs as of December 31, 2023 is presented below:

	Number of RSA Shares	Weighted-Average Grant-Date Fair Value
RSAs at January 1, 2023	52,066	\$ 55.77
Granted	44,215	\$ 55.33
Vested	(40,953)	\$ 55.71
Forfeited	(2,025)	55.59
RSAs at December 31, 2023	<u>53,303</u>	<u>\$ 55.48</u>

During 2023, the Company granted performance-based RSUs of common stock to Officers. Each award reflects a target number shares of common stock that may be issued to the award recipient. The Company may settle RSUs in shares of the Company's common stock, cash or a combination of both. The 2023 awards may be earned upon the completion of a 3-year performance period. Whether RSUs are earned at the end of the performance period will be determined based on the achievement of certain performance objectives set by the Organization and Compensation Committee of the Board in connection with the issuance of the RSUs. The performance objectives are based on the Company's business plan covering the performance period. The performance objectives include achieving the budgeted return on equity, growth in stockholders' equity, and environmental, social, and governance targets. Depending on the results achieved during the 3-year performance period, the actual number of shares that a grant recipient receives at the end of the performance period may range from 0% to 200% of the target shares granted, provided that the grantee is continuously employed by the Company through the vesting date. If prior to the vesting date employment is terminated by reason of death, disability or normal retirement, then a pro rata portion of this award will vest, which has typically been settled in cash. The RSUs are recognized as expense ratably over the 3-year performance period using a fair market value of the Company's common share at the date of grant and an estimated number of RSUs earned during the performance period. As of December 31, 2023, there was approximately \$2.4 million of total unrecognized compensation cost related to RSUs. The cost is expected to be recognized over a weighted average period of 1.4 years.

A summary of the status of the outstanding RSUs as of December 31, 2023 is presented below:

	Number of RSU Shares	Weighted-Average Grant-Date Fair Value
RSUs at January 1, 2023	92,625	\$ 54.06
Granted	43,633	\$ 55.48
Performance share award adjustment	14,822	\$ 56.84
Vested	(40,589)	\$ 56.84
Forfeited	(17,413)	\$ 54.43
RSUs at December 31, 2023	<u>93,078</u>	<u>\$ 55.41</u>

The Company has recorded compensation costs for the RSAs and RSUs which are included in administrative and general operating expenses in the amount of \$2.7 million for 2023 and \$4.9 million for 2022.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
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NOTE 13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires certain disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance. The three levels in the hierarchy are described in Note 11 - Employee Benefit Plans.

Specific valuation methods include the following:

Cash, Accounts receivable, short-term borrowings, and accounts payable carrying amounts approximated the fair value because of the short-term maturity of the instruments.

Long-term debt fair values were estimated using the published quoted market price, if available, or the discounted cash flow analysis, based on the current rates available using a risk-free rate (a U.S. Treasury securities yield curve) plus a risk premium of 0.6%.

	December 31, 2023				
	Cost	Fair Value			Total
		Level 1	Level 2	Level 3	
Long-term debt, including current maturities, net	\$ 1,053,440	\$ —	\$ 965,444	\$ —	\$ 965,444

	December 31, 2022				
	Cost	Fair Value			Total
		Level 1	Level 2	Level 3	
Long-term debt, including current maturities, net	\$ 1,055,797	\$ —	\$ 977,227	\$ —	\$ 977,227

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
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NOTE 14. COMMITMENTS AND CONTINGENCIES*Commitments*Water Supply Contracts

The Company has long-term commitments to purchase water from water wholesalers. The commitments are noted in the table below.

	Water Supply Contracts*
2024	\$ 33,362
2025	32,708
2026	32,712
2027	32,713
2028	32,709
Thereafter	435,518

* Estimated annual contractual obligations are based on the same payment levels as 2023.

The Company has a long-term contract with Valley Water that requires the Company to purchase minimum annual water quantities. Purchases are priced at the districts then-current wholesale water rate. The Company operates to purchase sufficient water to equal or exceed the minimum quantities under the contract. The total paid to Valley Water was \$12.6 million in 2023, \$11.3 million in 2022, and \$11.9 million in 2021.

The Company also has a water supply contract with Stockton East Water District (SEWD) that requires a fixed monthly payment. Each year, the fixed monthly payment is adjusted for changes to SEWD's costs. The total paid under the contract was \$11.5 million in 2023, \$15.3 million in 2022, and \$12.9 million in 2021.

On September 21, 2005, the Company entered into an agreement with Kern County Water Agency (Agency) to obtain treated water for the Company's operations. The term of the agreement is to January 1, 2035, or until the repayment of the Agency's bonds (described hereafter) occurs. Under the terms of the agreement, the Company is obligated to purchase approximately 20,500 acre feet of treated water per year. The Company is obligated to pay the Capital Facilities Charge and the Treated Water Charge regardless of whether it can use the water in its operation, and is obligated for these charges even if the Agency cannot produce an adequate amount to supply the 20,500 acre feet in the year. This agreement supersedes a prior agreement with Kern County Water Agency for the supply of 11,500 acre feet of water per year.

Three other parties, including the City of Bakersfield, are also obligated to purchase a total of 32,500 acre feet per year under separate agreements with the Agency. Further, the Agency has the right to proportionally reduce the water supply provided to all of the participants if it cannot produce adequate supplies. If any of the other parties does not use its allocation, that party is obligated to pay its contracted amount.

If any of the parties were to default on making payments of the Capital Facilities Charge, then the other parties are obligated to pay for the defaulting party's share on a pro-rata basis. If there is a payment default by a party and the remaining parties have to make payments, they are also entitled to a pro-rata share of the defaulting party's water allocation.

The Company expects to use all its entitled water in its operations every year. In addition, if the Company were to pay for and receive additional amounts of water due to a default of another participating party; the Company believes it could use this additional water in its operations without incurring substantial incremental cost increases. If additional treated water is available, all parties have an option to purchase this additional treated water, subject to the Agency's right to allocate the water among the parties.

The total obligation of all parties, excluding the Company, is approximately \$82.4 million to the Agency. Based on the credit worthiness of the other participants, which are government entities, it is believed to be highly unlikely that the Company would be required to assume any other parties' obligations under the contract due to their default.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
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NOTE 14. COMMITMENTS AND CONTINGENCIES (Continued)

The Company pays a capital facilities charge and charges related to treated water that together total \$11.5 million annually, which equates to \$560.22 dollars per acre foot. Total treated water charge for 2023 was \$4.7 million. As treated water is being delivered, the Company will also be obligated for the Company's portion of the operating costs; that portion is currently estimated to be \$51.69 dollars per acre foot. The actual amount will vary due to variations from estimates, inflation, and other changes in the cost structure. Our overall estimated cost of \$560.22 dollars per acre foot is less than the estimated cost of procuring untreated water (assuming water rights could be obtained) and then providing treatment.

On August 16, 2022, BVRT Utility Holding Company (BVRT), a majority owned subsidiary of Texas Water, entered into a long-term water supply agreement with the Guadalupe Blanco River Authority (GBRA) through its wholly owned subsidiary, Camino Real Utility (Camino Real). The Company has provided a limited guarantee to GBRA for the agreed upon obligations. GBRA is a water conservation and reclamation district established by the Texas Legislature that oversees water resources for 10 counties. Under the terms of the agreement with GBRA, Camino Real is contracted to receive up to 2,419 acre-feet of potable water annually. The GBRA agreement involves four off-takers, including Camino Real, and GBRA plans to extend a potable water pipeline from the City of Lockhart to the City of Mustang Ridge and surrounding areas. Camino Real is contracted to be the utility service provider in this area of the Austin metropolitan region and to provide potable water, recycled water, and wastewater services to portions of the City of Mustang Ridge and surrounding areas. In 2022, Camino Real committed \$21.5 million for its share of the cost of the pipeline project. In 2023, Camino Real committed an additional \$22.3 million for its share of the cost of the pipeline project. As of December 31, 2023, this committed cash has not been transferred to GBRA and is classified as part of restricted cash on the Consolidated Balance Sheets. The Company currently expects this committed cash to be transferred to GBRA in the first half of 2024.

Leases

The Company has operating and finance leases for water systems, offices, land easements, licenses, equipment, and other facilities. The leases generally have remaining lease terms of 1 year to 50 years, some of which include options to extend the lease for up to 25 years. The exercise of lease renewal options is at the Company's sole discretion. Most of the Company's lease agreements contain mutual termination options that require prior written notice by either lessee or lessor. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Certain leases include options to purchase the leased property. The depreciable life of the assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option that is reasonably certain of exercise. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet as the Company applied the short-term lease exception allowed by the Financial Accounting Standards Board guidance. Lease expense for these leases is recognized on a straight-line basis over the lease term. A subset of the Company's leases contains variable lease payments that depend on changes in the CPI.

The Company determines if an arrangement is a lease at contract inception. Generally, a lease agreement exists if the Company determines that the arrangement gives the Company control over the use of an identified asset and obtains substantially all of the benefits from the identified asset.

The right-of-use (ROU) assets that are recorded represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's operating leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The ROU asset and lease liability may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Variable lease payments that are based on changes in CPI are included in the measurement of ROU asset and lease liability on the basis of the rate at lease commencement. Subsequent changes to the payments as a result of changes to the CPI rate are recognized in the period in which the obligation of these payments is incurred.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
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NOTE 14. COMMITMENTS AND CONTINGENCIES (Continued)

Supplemental balance sheet information related to leases was as follows:

	As of December 31, 2023	As of December 31, 2022
<i>Operating leases</i>		
Other assets: Other	\$ 13,387	\$ 14,762
Other accrued liabilities	\$ 962	\$ 1,065
Other long-term liabilities	12,605	13,838
Total operating lease liabilities	\$ 13,567	\$ 14,903
<i>Finance leases</i>		
Depreciable plant and equipment	\$ 19,087	\$ 19,820
Accumulated depreciation and amortization	(14,339)	(14,017)
Net utility plant	\$ 4,748	\$ 5,803
Current maturities of long-term debt, net	\$ 844	\$ 2,555
Long-term debt, net	3,057	2,675
Total finance lease liabilities	\$ 3,901	\$ 5,230
<i>Weighted average remaining lease term</i>		
Operating leases	112 months	119 months
Finance leases	29 months	32 months
<i>Weighted average discount rate</i>		
Operating leases	3.6 %	3.5 %
Finance leases	5.5 %	4.4 %

CALIFORNIA WATER SERVICE GROUP
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NOTE 14. COMMITMENTS AND CONTINGENCIES (Continued)

The components of lease expense were as follows:

	2023	2022
Operating lease cost	\$ 2,520	\$ 2,514
Finance lease cost:		
Amortization of right-of-use assets	\$ 1,609	\$ 1,606
Interest on lease liabilities	190	246
Total finance lease cost	\$ 1,799	\$ 1,852
Short-term lease cost	\$ 1,442	\$ 2,101
Variable lease cost	549	519
Total lease cost	\$ 6,310	\$ 6,986

Supplemental cash flow information related to leases was as follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 2,534	\$ 2,498
Operating cash flows from finance leases	190	246
Financing cash flows from finance leases	1,400	824
Non-cash activities: right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 558	\$ 1,634
Finance leases	(61)	326

Maturities of lease liabilities as of December 31, 2023 are as follows:

Year Ending December 31,	Operating Leases	Finance Leases
2024	\$ 2,244	\$ 1,034
2025	1,956	2,505
2026	1,740	705
2027	1,547	—
2028	1,460	—
Thereafter	6,744	—
Total lease payments	15,691	4,244
Less imputed interest	(2,124)	(343)
Total	\$ 13,567	\$ 3,901

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
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NOTE 14. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

Groundwater Contamination

The Company has undertaken litigation against third parties to recover past and future costs related to ground-water contamination in our service areas. The cost of litigation is generally expensed as incurred and any settlement is first offset against such costs. The CPUC's general policy requires all proceeds from contamination litigation to be used first to pay transactional expenses, then to make customers whole for water treatment costs to comply with the CPUC's water quality standards. The CPUC allows for a risk-based consideration of contamination proceeds which exceed the costs of the remediation described above and may result in some sharing of proceeds with the shareholder, determined on a case-by-case basis. The CPUC has authorized various memorandum accounts that allow the Company to track significant litigation costs to request recovery of these costs in future filings and uses of proceeds to comply with CPUC's general policy.

Other Legal Matters

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company's financial position, results of operations, or cash flows. The Company has recognized a liability of \$6.0 million for all known legal matters as of December 31, 2023 primarily due to potable water main leaks and other work related legal matters. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case-by-case basis, dependent on the nature of the settlement.

NOTE 15. SUBSEQUENT EVENT

2021 GRC

On January 24, 2024, the assigned CPUC Administrative Law Judges (ALJs) issued a proposed decision (PD) on the litigated 2021 GRC, and concurrently, the assigned CPUC Commissioner issued an alternate proposed decision (APD) opposing and modifying certain decisions made by the ALJs. The PD issued by the ALJs was closer aligned to Cal Water's requested revenue requirement whereas the APD issued by the assigned Commissioner was closer aligned to the Public Advocates' requested revenue requirement. On February 13, 2024, Cal Water filed a request to change several elements in the PD and APD, including correction of possible 2021 GRC technical issues. The Company is unable to determine which of the two proposed decisions will be adopted by the CPUC, or if a second alternate proposed decision will be issued by the CPUC. As a result of the uncertainty of the decision that will ultimately be made by the CPUC, the Company is unable to reasonably estimate the impact on 2023 operating revenue and expenses. The 2021 GRC cumulative adjustment plus interest which is retroactive to January 1, 2023, will be recorded when the final decision is issued by the CPUC.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

Item 9A. *Controls and Procedures.*

Management's Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management, including the Chief Executive Officer and Chief Financial Officer, recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Accordingly, our disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2023. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2023. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control—Integrated Framework (2013)". Management has concluded that, as of December 31, 2023 our internal control over financial reporting is effective based on these criteria. Our independent registered public accounting firm, Deloitte & Touche LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2023, as stated in their report, which is included in Item 8 and incorporated herein.

Changes to Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fourth quarter of 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information.*

(a)

On February 28, 2024, the Board adopted an amendment and restatement of the Company's Amended and Restated Bylaws as previously adopted by the Board (as amended and restated, the "Amended and Restated Bylaws"), effective as of such date, in order to clarify the scope of certain information to be provided in connection with a notice of stockholder business and nominations.

(b) Trading Plans

During the last fiscal quarter, no director or Section 16 officer of the Company adopted or terminated any Rule 10b5-1 or non-Rule 10b5-1 trading arrangement (as defined under SEC rules).

Item 9C. *Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.*

Not applicable.

PART III

Item 10. *Directors and Executive Officers and Corporate Governance.*

The information required by this Item as to directors of the Company and the Company's Audit Committee is contained in the sections captioned "Board Structure," "Proposal No. 1—Election of Directors" and, as applicable, "Delinquent Section 16(a) Reports" of the definitive Proxy Statement for our Annual Meeting of Stockholders to be held on or about May 29, 2024 (the "2024 Proxy Statement"), and is incorporated herein by reference.

Information required by this Item regarding executive officers is included in a separate section captioned "Information About Our Executive Officers" contained in Part I of this annual report.

We have adopted codes of ethics that apply to all of our directors, officers, and employees, including our principal executive, financial and accounting officers, or persons performing similar functions. Our codes of ethics are posted on our corporate governance website located at <http://www.calwatergroup.com>. In addition, amendments to the codes of ethics and any grant of a waiver from a provision of the codes of ethics requiring disclosure under applicable SEC and NYSE rules will be disclosed at the same location as the codes of ethics on our corporate governance website located at <http://www.calwatergroup.com> within four business days of such amendment or waiver.

Item 11. Executive Compensation.

The information required by this Item is contained under the captions "Compensation Discussion and Analysis," "Report of the Organization and Compensation Committee of the Board on Executive Compensation," and "Organization and Compensation Committee Interlocks and Insider Participation" of the 2024 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item regarding security ownership of certain beneficial owners and management is contained in the section captioned "Stock Ownership of Management and Certain Beneficial Owners" of the 2024 Proxy Statement and is incorporated herein by reference.

The following table represents securities authorized to be issued under our equity compensation plan:

<u>Plan Category</u>	Number of Securities to be Issued Upon Exercise of Outstanding Rights (a) (1)	Weighted-Average Exercise Price of Outstanding Rights (1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan (Excluding Securities Reflected in Column) (a)
Equity compensation plans approved by security holders	93,078	\$ 55.41	1,679,724
Equity compensation plans not approved by security holders	—	—	—
Total	93,078	\$ 55.41	1,679,724

1. Represents restricted stock units, which have no exercise price and are not included in the weighted-average exercise price of outstanding rights.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this Item is contained in the sections captioned "Certain Related Persons Transactions" and "Board Structure" of the 2024 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

Information about aggregate fees billed to us by our principal accountant, Deloitte & Touche LLP (PCAOB ID No. 34) will be presented in the sections captioned "Report of the Audit Committee" and "Relationship with the Independent Registered Public Accounting Firm" of the 2024 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

- (a) As part of this Form 10-K, the following documents are being filed:

1. *Financial Statement:* See "Index to Consolidated Financial Statements" in Part II, Item 8 of this Form 10-K.
2. *Financial Statement Schedules:* No financial statement schedules are being included since the information otherwise required is included in the financial statements and the notes thereto.
3. *Exhibits:* The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference.

EXHIBIT INDEX

Unless filed with this Form 10-K, the documents listed are incorporated by reference to the filings referred to:

Exhibit Number

- | | |
|------|---|
| 1.1 | Equity Distribution Agreement, dated as of April 29, 2022, between California Water Service Group and Morgan Stanley & Co. LLC, Robert W. Baird & Co. Incorporated, Blaylock Van, LLC, Wells Fargo Securities, LLC, Janney Montgomery Scott LLC and Samuel A. Ramirez & Company, Inc. (incorporated by reference to the Company's Form 8-K filed April 29, 2022) |
| 3.1 | Certificate of Incorporation of California Water Service Group (Exhibit 3.1 to the Quarterly Report on Form 10-Q filed August 9, 2006) |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of California Water Service Group (Exhibit 3.1 to the Current Report on Form 8-K filed June 10, 2011) |
| 3.3 | Certificate of Amendment to Amended Certificate of Incorporation of California Water Service Group (Exhibit 3.3 to the Quarterly Report on Form 10-Q filed July 28, 2022) |
| 3.4 | Certificate of Amendment to Amended Certificate of Incorporation of California Water Service Group (Exhibit 3.4 to the Quarterly Report on Form 10-Q filed July 27, 2023) |
| 3.5 | Amended and Restated Bylaws of California Water Service Group, as amended on February 28, 2024 |
| 4.1 | Certificate of Designations regarding Series D Participating Preferred Stock, as filed with Delaware Secretary of State on September 16, 1999 (Exhibit 4.2 to Annual Report on Form 10-K for the year ended December 31, 2003) |
| 4.2 | Certificate of Elimination of the Series D Participating Preferred Stock, as filed with Delaware Secretary of State on February 27, 2019 (Exhibit 4.2 to Annual Report on Form 10-K for the year ended December 31, 2018) |
| 4.3 | Thirty-Ninth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee (Exhibit 4.1 to Current Report on Form 8-K filed April 21, 2009) |
| 4.4 | Forty-Third Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 7.28% First Mortgage Bonds due 2025, Series AAA. (Exhibit 4.5 to Current Report on Form 8-K filed April 21, 2009) |
| 4.5 | Forty-Fourth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 6.77% First Mortgage Bonds due 2028, Series BBB. (Exhibit 4.6 to Current Report on Form 8-K filed April 21, 2009) |
| 4.6 | Forty-Fifth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 8.15% First Mortgage Bonds due 2030, Series CCC. (Exhibit 4.7 to Current Report on Form 8-K filed April 21, 2009) |
| 4.7 | Forty-Sixth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 7.13% First Mortgage Bonds due 2031, Series DDD. (Exhibit 4.8 to Current Report on Form 8-K filed April 21, 2009) |
| 4.8 | Forty-Seventh Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 7.11% First Mortgage Bonds due 2032, Series EEE. (Exhibit 4.9 to Current Report on Form 8-K filed April 21, 2009) |
| 4.9 | Fifty-First Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.54% First Mortgage Bonds due 2023, Series III. (Exhibit 4.13 to Current Report on Form 8-K filed April 21, 2009) |
| 4.10 | Fifty-Seventh Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 6.02% First Mortgage Bonds due 2031, Series OOO. (Exhibit 4.19 to Current Report on Form 8-K filed April 21, 2009) |
| 4.11 | Fifty-Eighth Supplemental Indenture dated as of November 22, 2010, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.50% First Mortgage Bonds due 2040, Series PPP. (Exhibit 4.1 to Current Report on form 8-K filed November 22, 2010) |
| 4.12 | Sixty-Second Supplemental Indenture dated as of June 11, 2019, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 3.40% First Mortgage Bonds due 2029, Series VVV, 4.07% First Mortgage Bonds due 2049, Series WWW, and 4.17% First Mortgage Bonds due 2059, Series YYY (Exhibit 10.1 to the Current Report on Form 8-K filed June 18, 2019) |
| 4.13 | Sixty-Third Supplemental Indenture dated as of May 11, 2021, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 2.87% First Mortgage Bonds due 2051, Series ZZZ and 3.02% First Mortgage Bonds due 2061, Series I (Exhibit 10.1 to the Current Report on Form 8-K filed May 11, 2021) |

<u>Exhibit Number</u>	
4.14	The Company agrees to furnish upon request to the Securities and Exchange Commission a copy of each instrument defining the rights of holders of long-term debt of the Company.
4.15	Description of securities
10.1	Water Supply Contract between Cal Water and County of Butte relating to Cal Water's Oroville District; Water Supply Contract between Cal Water and the Kern County Water Agency relating to Cal Water's Bakersfield District; Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibits 5(g), 5(h), 5(i), 5(j), Registration Statement No. 2-53678, which exhibits are incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1974)
10.2	Water Supply Contract between the City and County of San Francisco and wholesale customers in Alameda County, San Mateo County and Santa Clara County for a term of twenty-five years beginning on July 1, 2009 and ending on June 30, 2034. The agreement was dated June 24, 2009. (Exhibit 10.3 to Quarterly Report on Form 10-Q for the quarter ending September 30, 2009).
10.3	Water Supply Contract dated July 1, 2009 between the City and County of San Francisco and California Water Service Company to provide water to Bear Gulch and Bayshore service areas for a term of twenty-five years beginning July 1, 2009 and ending June 30, 2034. (Exhibit 10.4 to Quarterly Report on Form 10-Q for the quarter ending September 30, 2009).
10.4	Water Supply Contract dated January 27, 1981, between Cal Water and the Santa Clara Valley Water District relating to Cal Water's Los Altos District (Exhibit 10.3 to Annual Report on Form 10-K for the year ended December 31, 1992)
10.5	Amendments No. 3, 6 and 7 and Amendment dated June 17, 1980, to Water Supply Contract between Cal Water and the County of Butte relating to Cal Water's Oroville District. (Exhibit 10.5 to Annual Report on Form 10-K for the year ended December 31, 1992)
10.6	Amendment dated May 31, 1977, to Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibit 10.6 to Annual Report on Form 10-K for the year ended December 31, 1992)
10.7	Second Amended Contract dated September 25, 1987, among Stockton East Water District, California Water Service Company, the City of Stockton, the Lincoln Village Maintenance District, and the Colonial Heights Maintenance District Providing for the Sale of Treated Water. (Exhibit 10.7 to Annual Report on Form 10-K for the year ended December 31, 1987)
10.8	Water Supply Contract dated April 19, 1927, and Supplemental Agreement dated June 5, 1953, between Cal Water and Pacific Gas and Electric Company relating to Cal Water's Oroville District. (Exhibit 10.9 to Annual Report on Form 10-K for the year ended December 31, 1992)
10.9	Water Supply Agreement dated September 25, 1996, between the City of Bakersfield and California Water Service Company. (Exhibit 10.18 to Quarterly Report on Form 10-Q for the quarter ended September 30, 1996)
10.10	Water Supply Contract dated November 16, 1994, between California Water Service Company and Alameda County Flood Control and Water Conservation District relating to Cal Water's Livermore District (Exhibit 10.15 to Annual Report on Form 10-K for the year ended December 31, 1994)
10.11	California Water Service Group Directors' Retirement Plan (As amended and restated on February 22, 2006) (Exhibit 10.14 to the Annual Report on Form 10-K for the year ended December 31, 2005)
10.12	Credit Agreement dated as of March 31, 2023 among California Water Service Group and certain of its subsidiaries from time to time party thereto, as borrowers, Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, BofA Securities, Inc., as sole lead arranger and sole bookrunner, CoBank, ACB, and U.S. Bank National Association as co-syndication agents, Bank of China, Los Angeles Branch as documentation agent, and the other lender parties thereto (Exhibit 10.2 to the Current Report on Form 8-K filed April 5, 2023)
10.13	Credit Agreement dated as of March 31, 2023 among California Water Service Company as borrower, Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, BofA Securities, Inc., as sole lead arranger and sole bookrunner, CoBank, ACB, and U.S. Bank National Association as co-syndication agents, Bank of China, Los Angeles Branch as documentation agent, and the other lender parties thereto (Exhibit 10.1 to the Current Report on Form 8-K filed April 5, 2023)
10.14	Executive Severance Plan (Exhibit 10.24 to Annual Report on Form 10-K for the year ended December 31, 1998)*
10.15	California Water Service Group Deferred Compensation Plan effective January 1, 2001 (Exhibit 10.22 to Annual Report on Form 10-K for the year ended December 31, 2000)*
10.16	California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.23 to Annual Report on Form 10-K for the year ended December 31, 2000)*
10.17	Amendment No. 1 to California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.22 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)*

<u>Exhibit Number</u>	
10.18	Water Supply Contract 99-73 between the City of Bakersfield and California Water Service Company, dated March 31, 1999 (Exhibit 10.25 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.19	Amendment No. 1 to Water Supply Contract between the City of Bakersfield and California Water Service Company, dated October 3, 2001 (Exhibit 10.26 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.20	Amendment No. 2 to California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.27 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)*
10.21	California Water Service Group Amended and Restated Equity Incentive Plan (filed as Appendix A of the California Water Service Group proxy statement dated April 8, 2014, for its Annual Meeting of Stockholders to be held on May 20, 2014, as filed with the SEC on April 8, 2014)*
10.22	The registrant's policy on option repricing under its Equity Incentive Plan (incorporated by reference to Item 8.01 Other Events in the registrant's Current Report on Form 8-K dated April 7, 2005)*
10.23	Water Supply Contract dated September 21, 2005, between Cal Water and the Kern County Water Agency (Exhibit 10.1 to Current Report on Form 8-K filed on September 21, 2005)
10.24	Form of Restricted Stock Award Grant Notice under the California Water Service Group Equity Incentive Plan (Exhibit 10.36 to the Annual Report on Form 10-K for the year ended December 31, 2005)
10.25	Form of Restricted Stock Award Agreement under the California Water Service Group Equity Incentive Plan with Assignment Separate From Certificate and Joint Escrow Instructions (Exhibit 10.38 to the Annual Report on Form 10-K for the year ended December 31, 2005)
10.26	Form of Indemnification Agreement to be entered between California Water Service Group and its directors and officers (Exhibit 10.44 to the Annual Report on Form 10-K for the year ended December 31, 2006)
10.27	Offer letter between James P. Lynch and California Water Service Group dated January 2, 2024
21.0	Subsidiaries of the Registrant
22.1	List of Subsidiary Issuers and Guarantors
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
97	Incentive Compensation Clawback Policy
101	The following materials from this Annual Report on Form 10-K formatted in iXBRL (Inline extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Common Stockholders' Equity and (v) the Notes to the Consolidated Financial Statements.
104	The cover page from this Annual Report on Form 10-K, formatted in iXBRL (included as exhibit 101).

* Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

By CALIFORNIA WATER SERVICE GROUP
/s/ MARTIN A. KROPELNICKI
MARTIN A. KROPELNICKI,
Chairman, President and Chief Executive Officer

Date: February 29, 2024

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The members of the Board of Directors who have signed below constitute a majority of the Board of the Directors.

<u>/s/ MARTIN A. KROPELNICKI</u> MARTIN A. KROPELNICKI	President and Chief Executive Officer; Principal Executive Officer; Chairman, Board of Directors	Date: February 29, 2024
<u>/s/ GREGORY E. ALIFF</u> GREGORY E. ALIFF	Member, Board of Directors	Date: February 29, 2024
<u>/s/ SHELLY M. ESQUE</u> SHELLY M. ESQUE	Member, Board of Directors	Date: February 29, 2024
<u>/s/ JEFFREY KIGHTLINGER</u> JEFFREY KIGHTLINGER	Member, Board of Directors	Date: February 29, 2024
<u>/s/ THOMAS M. KRUMMEL</u> THOMAS M. KRUMMEL, M.D.	Member, Board of Directors	Date: February 29, 2024
<u>/s/ YVONNE A. MALDONADO</u> YVONNE A. MALDONADO	Member, Board of Directors	Date: February 29, 2024
<u>/s/ SCOTT L. MORRIS</u> SCOTT L. MORRIS	Member, Board of Directors	Date: February 29, 2024
<u>/s/ CHARLES R. PATTON</u> CHARLES R. PATTON	Member, Board of Directors	Date: February 29, 2024
<u>/s/ CAROL M. POTTENGER</u> CAROL M. POTTENGER	Member, Board of Directors	Date: February 29, 2024
<u>/s/ LESTER A. SNOW</u> LESTER A. SNOW	Member, Board of Directors	Date: February 29, 2024
<u>/s/ PATRICIA K. WAGNER</u> PATRICIA K. WAGNER	Member, Board of Directors	Date: February 29, 2024
<u>/s/ DAVID B. HEALEY</u> DAVID B. HEALEY	Principal Financial Officer	Date: February 29, 2024
<u>/s/ THOMAS A. SCANLON</u> THOMAS A. SCANLON	Corporate Controller, Principal Accounting Officer	Date: February 29, 2024

**AMENDED AND RESTATED BYLAWS
OF
CALIFORNIA WATER SERVICE GROUP
(A DELAWARE CORPORATION)
AS AMENDED EFFECTIVE FEBRUARY 28, 2024**

**AMENDED AND RESTATED BYLAWS
OF
CALIFORNIA WATER SERVICE GROUP
(a Delaware corporation)
as amended effective February 28, 2024**

ARTICLE 1. OFFICES

SECTION 1.1. REGISTERED OFFICE.

The registered office of the corporation shall be fixed in the certificate of incorporation of the corporation, as the same may be amended and/or restated from time to time.

SECTION 1.2. PRINCIPAL PLACE OF BUSINESS.

The corporation's principal place of business shall be 1720 North First Street, San Jose, California, or such other place as the board of directors shall designate from time to time.

SECTION 1.3. OTHER OFFICES.

One or more branch or other subordinate offices may at any time be fixed and located by the board of directors at such place or places within or without the State of Delaware as it deems appropriate.

ARTICLE 2. DIRECTORS

SECTION 2.1. EXERCISE OF CORPORATE POWERS.

Except as otherwise provided by the certificate of incorporation of the corporation or by the laws of the State of Delaware now or hereafter in force, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors. The board may delegate the management of the day-to-day operation of the business of the corporation as permitted by law provided that the business and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the board.

SECTION 2.2. NUMBER.

The number of the corporation's directors shall be not less than seven (7) not more than twelve (12), the exact number of which shall be fixed by a resolution approved by the stockholders or by the board of directors.

SECTION 2.3. CHAIRMAN OF THE BOARD

The Chairman of the board of directors shall preside at meetings of the stockholders and of the board of directors and shall do and perform such other duties as may from time to time be assigned to him by the board of directors. If the Chairman of the board of directors is not present at a meeting of the stockholders or the board of directors, the lead director or another person chosen by the board of directors shall preside. The Chairman of the board of directors shall be chosen from the directors, and may or may not be an officer of the corporation. Officers, other than the Chairman of the board, may or may not be directors.

SECTION 2.4. DIRECTORS NEED NOT BE STOCKHOLDERS.

The directors of the corporation need not be stockholders of the corporation.

SECTION 2.5. COMPENSATION.

Directors shall receive such compensation for their services as directors and such reimbursement for their expenses of attendance at meetings as may be determined from time to time by resolution of the board. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefore.

SECTION 2.6. ELECTION AND TERM OF OFFICE.

At each annual meeting of stockholders, directors shall be elected to hold office until the next annual meeting, provided, that if for any reason, said annual meeting or an adjournment thereof is not held or the directors are not elected thereat, then the directors may be elected at any special meeting of the stockholders called and held for that purpose. The term of office of the directors shall begin immediately after their election and shall continue until the expiration of the term for which elected and until their respective successors have been elected and qualified.

SECTION 2.7. VACANCIES.

A vacancy or vacancies in the board of directors shall exist when any authorized position of director is not then filled by a duly elected director, whether caused by death, resignation, removal, change in the authorized number of directors (by the board or the stockholders) or otherwise. The board of directors may declare vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony. Except for a vacancy created by the removal of a director, vacancies on the board may be filled by a majority of the directors then in office, whether or not less than a quorum, or by a sole remaining director. A vacancy created by the removal of a director may be filled only by the approval of the stockholders. Any director may resign effective upon giving written notice to the Chairman of the board, the President, the Corporate Secretary or the board of directors of the corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

SECTION 2.8. REMOVAL.

- a. Any and all directors may be removed without cause if such removal is approved by the affirmative vote of a majority of the votes entitled to be cast by the outstanding voting shares at an election of directors, except that when by the provisions of the certificate the holders of the shares of any class or series, voting as a class or series, are entitled to elect one or more directors, any director so elected may be removed only by the applicable vote of the holders of the shares of that class or series.
- b. Any reduction of the authorized number of directors does not remove any director prior to the expiration of such director's term of office.
- c. A director shall be deemed to be removed for cause if such person ceases to be eligible to serve as a director under the terms of Section 2.9.

SECTION 2.9. DIRECTOR CONFLICT OF INTEREST.

- a. In order to protect the best interests of the stockholders of the corporation, no person shall be qualified to be elected as a director of the corporation or be qualified to continue to serve as a director of the corporation if it is determined in accordance with this Section 2.9 that such person is (i) an owner, part owner, stockholder, partner, member, director, officer, manager, employee of or consultant to, or otherwise has a fiduciary duty to, any Strategic Competitor or (ii) an owner, part owner, stockholder, partner, member, director, officer, manager, employee of or consultant to, or otherwise has a fiduciary duty to, any business organization that beneficially owns five percent or more of the voting securities or five percent or more of the equity securities of a Strategic Competitor.
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- b. For purposes of this Section 2.9, a “Strategic Competitor” is any business organization (whether a corporation, partnership, limited liability company, proprietorship or any other form) whose activities, products or services are competitive with those of the corporation or its subsidiaries and which, in the opinion of a majority of the corporation’s board of directors, would obtain an unfair competitive advantage over the corporation if it were to receive disclosure of the substance of any nonpublic deliberations by the corporation’s board of directors.
- c. Notwithstanding the foregoing, a director or nominee for director may make a passive investment in a Strategic Competitor the shares of which are publicly traded if such investment constitutes less than five percent of the voting securities and less than five percent of the equity securities of such enterprise and has a market value not greater than \$100,000. Such investment alone shall not make a person ineligible to become or remain a director of the corporation.
- d. In furtherance of the foregoing, each person elected as a director of the corporation shall enter into a confidentiality agreement with the corporation in the form provided by the corporation.
- e. Any person who, at the time he or she is a nominee for a position as a director of the corporation, fails to qualify under the provisions of this Section 2.9 or to enter into or comply with the terms of such confidentiality agreement, as determined by a majority of the directors in office immediately prior to any such election (exclusive of the nominee under consideration), shall no longer qualify as a nominee for director and shall not be elected as a director of the corporation, irrespective of any vote of the stockholders of the corporation. The Chairman of the board of directors is authorized to instruct the inspector of elections to disregard any votes or proxies voted in favor of any person at any meeting or otherwise, and the inspector of elections shall comply with any such instruction.
- f. Any director of the corporation who, at any time during his/her term of office, fails to qualify under the provisions of this Section 2.9 or to enter into or comply with the terms of such confidentiality agreement, in each case as determined by a majority of the directors (exclusive of the director under consideration), shall automatically be removed for cause and shall cease to be a director of the corporation, without any vote of the stockholders of the corporation. The Chairman of the board of directors is authorized to instruct the Corporate Secretary to certify the removal for cause of any person as a director if such person ceases to be eligible to serve as a director under the terms of this Section 2.9, and the Corporate Secretary shall comply with any such instruction.
- g. Subsection (f) of this Section 2.9 shall not apply to directors in office on the date of the adoption of Section 2.9 with respect to relationships and conflicts in existence on such date. Subsection (f) shall apply to existing directors with respect to relationships and conflicts that arise after the date of the adoption of this Section 2.9.
- h. This Section 2.9 is intended to prescribe certain qualifications for directors as authorized by Section 141 of the Delaware General Corporation Law.

ARTICLE 3. OFFICERS

SECTION 3.1. ELECTION AND QUALIFICATIONS.

The officers of this corporation shall consist of a President, a Corporate Secretary, a Treasurer and a Controller who shall be chosen by the board of directors and such other officers as the board of directors shall deem expedient, who shall be chosen in such manner and hold their offices for such terms as the board of directors may prescribe. Any two or more of such offices may be held by the same person. Officers may or may not be directors. The board of directors may determine to leave any office vacant.

SECTION 3.2. TERM OF OFFICE AND COMPENSATION.

The term of office and salary of each of said officers and the manner and time of the payment of such salaries shall be fixed and determined by the board of directors and may be altered by said board of directors from time to time at its pleasure, subject to the rights, if any, of said officers under any contract of employment.

SECTION 3.3. REMOVAL AND VACANCIES.

Any officer of the corporation may be removed, with or without cause, by the board of directors at any meeting or by any officer who may be granted such power by a resolution of the board of directors without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party. Any officer may resign at any time upon written notice to the corporation without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party. If any vacancy occurs in any office of the corporation, the board of directors may elect a successor to fill such vacancy for the remainder of the unexpired term and until a successor is duly chosen and qualified, or such office may be left vacant.

ARTICLE 4. PRESIDENT

The President shall do and perform all such duties as may from time to time be assigned to him by the board of directors and such other duties as pertain to the office of the President. The President shall have the power and authority to affix the signature of the corporation to all deeds, conveyances, mortgages, leases, obligations, bonds, contracts, certificates and other papers and instruments in writing which have been authorized or directed by the board of directors or which, in the President's judgment, should be executed on behalf of the corporation, and to sign certificates for shares of stock of the corporation.

ARTICLE 5. CORPORATE SECRETARY

The powers and duties of the Corporate Secretary are:

- a. To keep at the principal place of business of the corporation, or such other place as the board of directors may order, a book of minutes of all meetings of directors and stockholders with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' meetings, the number of shares present or represented at stockholders' meetings and the proceedings thereof.
 - b. To keep the seal of the corporation and to affix the same to all instruments which may require it.
 - c. To keep or cause to be kept at the principal office of the corporation, or at the office of the transfer agent or agents, a share register, or duplicate share registers, showing the names of the stockholders and their addresses, the number and classes of shares held by each, the number and date of any certificates issued for shares, and the number and date of cancellation of any certificate surrendered for cancellation.
 - d. To keep a supply of certificates for shares of the corporation, to fill in all certificates issued, and to make a proper record of each issuance of certificates or uncertificated shares; provided that so long as the corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of shares of the corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents.
 - e. To transfer upon the share books of the corporation any and all shares of the corporation; provided that so long as the corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of shares, of the corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents, and the method of transfer of such shares shall be subject to the reasonable regulations of the transfer agent to which the shares are presented for transfer, and also, if the corporation then has one or more duly appointed and acting registrars, to the reasonable regulations of the registrar to which any new shares are presented for registration; and provided, further, that no certificate for shares of stock shall be issued or delivered or, if issued or delivered, shall have any validity whatsoever until and unless it has been signed or authenticated in the manner provided in Section 11.4 hereof.
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- f. To make service and publication of all notices that may be necessary or proper, and without command or direction from anyone. In case of the absence, disability, refusal or neglect of the Corporate Secretary to make service or publication of any notices, then such notices may be served and/or published by the President, or by any person thereunto authorized by either of them or by the board of directors or by the holders of a majority of the outstanding shares of the corporation.
- g. Generally to do and perform all such duties as may from time to time be assigned by the board of directors and such other duties as pertain to the office of the Corporate Secretary.

ARTICLE 6. TREASURER

The Treasurer shall supervise and be responsible for all the funds and securities of the corporation, the deposit of all moneys and other valuables to the credit of the corporation in depositories of the corporation, borrowings and compliance with the provisions of all indentures, agreements and instruments governing such borrowings to which the corporation is a party, the disbursement of funds of the corporation and the investment of its funds, and generally do and perform all such duties as may from time to time be assigned by the board of directors and such other duties as pertain to the office of the Treasurer.

ARTICLE 7. CONTROLLER

The Controller shall have charge of the corporation's books of accounts, records and auditing, and generally do and perform all such duties as may from time to time be assigned by the board of directors and such other duties as pertain to the office of the Controller.

ARTICLE 8. COMMITTEES OF THE BOARD

SECTION 8.1. APPOINTMENT AND PROCEDURE.

The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees each consisting of two or more directors to serve at the pleasure of the board.

The board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee.

SECTION 8.2. POWERS.

Any committee appointed by the board of directors, to the extent provided in the resolution of the board or in these bylaws, shall have all the authority of the board except with respect to:

- a. the approval of any action which requires the approval or vote of the stockholders;
 - b. the filling of vacancies on the board or on any committee;
 - c. the fixing of compensation of the directors for serving on the board or on any committee;
 - d. the amendment or repeal of bylaws or the adoption of new bylaws;
 - e. the amendment or repeal of any resolution of the board which by its express terms is not so amendable or repealable;
 - f. a distribution to the stockholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board; and
 - g. the appointment of other committees of the board or the members thereof.
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SECTION 8.3. EXECUTIVE COMMITTEE.

In the event that the board of directors appoints an executive committee, such executive committee shall include the Chairman of the board as one of its members. In all cases in which specific directions to the contrary shall not have been given by the board of directors, such executive committee shall have and may exercise, during the intervals between the meetings of the board of directors, all the powers and authority of the board of directors in the management of the business and affairs of the corporation (except as provided in Section 8.2 hereof) in such manner as the executive committee may deem in the best interests of the corporation.

ARTICLE 9. MEETINGS OF THE STOCKHOLDERS

SECTION 9.1. PLACE OF MEETINGS.

Meetings (whether regular, special or adjourned) of the stockholders of the corporation shall be held at the principal place of business as specified in accordance with Section 1.2 hereof, or any place which may be designated by the board of directors. Notwithstanding the foregoing sentence, the board of directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication in accordance with Section 211(a)(2) of the Delaware General Corporation Law.

SECTION 9.2. TIME OF ANNUAL MEETINGS.

The annual meeting of the stockholders shall be held at such time on such date as shall be designated from time to time by resolution of the board of directors, in accordance with applicable law.

SECTION 9.3. SPECIAL MEETINGS.

- a. *General.* Special meetings of the stockholders of the corporation: (1) may be called by the Chairman of the board or by the board of directors pursuant to a resolution adopted by a majority of the total number of directors which the corporation would have if there were no vacancies; and (2) shall be called by the Chairman of the board of directors or the Corporate Secretary of the corporation upon the written request or requests of one or more stockholders of record (or their duly authorized agents) that, at the time a request is delivered, Own, or who are acting on behalf of persons who Own, shares representing 10% (the "Requisite Percent") or more (measured as of the Requisite Percent Solicitation Record Date, as defined in Section 9.3(b)(3), if applicable) of the voting power of the then outstanding Voting Stock (as defined in Section 9.8(a)) entitled to vote on the matter or matters to be brought before the proposed special meeting, provided that a special meeting called at the request of one or more stockholders (a "Stockholder Requested Special Meeting") shall be called by the Chairman of the board or the Corporate Secretary of the corporation only if the stockholder(s) requesting such meeting provide the information regarding such stockholder(s) (and regarding the persons for whom such stockholders are acting, as applicable) and the proposed special meeting and comply with such procedures set forth in Section 9.3(b) of these bylaws. If a stockholder of record is the nominee for more than one beneficial owner of shares of Voting Stock, the stockholder of record may deliver a request pursuant to this Section 9.3 solely with respect to the shares of Voting Stock owned by the beneficial owner who is directing the stockholder of record to sign such request. For the purposes of this Section 9.3, a person shall be deemed to "Own" only those shares of outstanding Voting Stock as to which the person possesses both (i) full voting and investment rights pertaining to the shares and (ii) the full economic interest in (including the opportunity for profit and risk of loss on) such shares; provided that the number of shares calculated in accordance with clauses (i) and (ii) shall not include any shares (A) sold by such person or any of its affiliates in any transaction that has not been settled or closed, including any Short Interest (as defined in Section 9.16(a)(2)(ii)(E)), (B) borrowed by such person or any of its affiliates for any purposes or purchased by such person or any of its affiliates pursuant to an agreement to resell, or (C) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such person or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of shares of outstanding Voting Stock, in any such case which instrument or agreement has, or is intended to have, the purpose or effect of (x) reducing in any manner, to any extent or at any time in the future, such person's or affiliates' full right to vote or direct the voting of any such shares, and/or (y) hedging, offsetting or altering
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to any degree gain or loss arising from the full economic ownership of such shares by such person or affiliate. A person shall Own shares held in the name of a nominee or other intermediary so long as the person retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. A person's ownership of shares shall be deemed to continue during any period in which the person has loaned such shares provided that the person has the power to recall such loaned shares on three (3) business days' notice and during any period in which the person has delegated any voting power by means of a proxy, power of attorney or other instrument or arrangement which is revocable at any time by the person. The determination of the extent to which a person "Owns" any shares of Voting Stock for these purposes shall be made in good faith by the board of directors, which determination shall be conclusive and binding.

b. *Stockholder Requested Special Meeting.*

- i. In order for a Stockholder Requested Special Meeting to be called by the Chairman of the board or the Corporate Secretary of the corporation, one or more written requests for a special meeting (individually or collectively, a "Special Meeting Request") must be delivered to the Corporate Secretary at the principal executive offices of the corporation by one or more stockholders of record (or their duly authorized agents), who (x) at the time the Special Meeting Request is delivered Own, or who are acting on behalf of persons who Own (as applicable), the Requisite Percent of Voting Stock (measured as of the Requisite Percent Solicitation Record Date, as defined in Section 9.3(b)(3), if applicable); (y) shall not revoke such Special Meeting Request; and (z) shall continue to Own not less than the Requisite Percent through the date of the Stockholder Requested Special Meeting; provided that, notwithstanding the foregoing, one or more Special Meeting Requests that have been obtained by an Initiating Stockholder pursuant to a Requisite Percent Solicitation under Section 9.3(b)(3) only need to evidence that the stockholder of record or the beneficial owner(s) on whose behalf the Special Meeting Request is delivered Owned the relevant Voting Stock as of the appropriate Requisite Percent Solicitation Record Date. Such Special Meeting Request must be accompanied by:
 1. in the case of any Stockholder Requested Special Meeting at which director nominations are proposed to be presented, the information, representations, and completed and signed questionnaires required by Section 9.16(a)(3) and (4), including as to the person(s) seeking to propose such nominations at such meeting, the information required under Section 9.16(a)(2)(ii), which notice shall be further updated and supplemented, if necessary, so that the information provided or required to be provided in such notice shall be true and correct, as provided in the last sentence of Section 9.16(a)(1); and/or
 2. in the case of any Stockholder Requested Special Meeting at which any business other than nominations of persons for election to the corporation's board of directors is proposed to be presented, the information required by Section 9.16(b)(3) (which shall be in addition to the information required by this Section 9.3(b)(1) if director nominations also are proposed to be considered), including as to the person(s) seeking to propose such business at such meeting, the information required under Section 9.16(b)(3), which notice shall be further updated and supplemented, if necessary, so that the information provided or required to be provided in such notice shall be true and correct, as provided in the last sentence of Section 9.16(b)(2); and
 3. as to each stockholder of the corporation signing such Special Meeting Request, or if such stockholder is a nominee or custodian, the beneficial owner(s) on whose behalf such request is signed, (a) an affidavit by each such person stating the number of shares of Voting Stock that it Owns (as defined in Section 9.3(a)), as of the date such request was signed and an agreement by such person to update and supplement such affidavit, if necessary, so that the information provided in such affidavit regarding the number of shares of Voting Stock that such person Owns shall be true and correct as of the record date for the Stockholder Requested Special Meeting and as of the date that is ten (10)

business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to the Corporate Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for the meeting in the case of the update and supplement required to be made as of the record date, and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof; provided that in the event of any decrease in the number of shares of Voting Stock Owned by such person, such person's Special Meeting Request shall be deemed to have been revoked with respect to such shares of Voting Stock comprising such reduction and shall not be counted toward the calculation of the Requisite Percent, and (b) as to the stockholder seeking to call the special meeting (or the person on whose behalf the stockholder is acting, as applicable) or any stockholder or beneficial owner who has solicited other stockholders to request the special meeting, the information as to such stockholder or beneficial owner required under Section 9.16(a)(2)(i).

- ii. One or more written requests for a special meeting delivered to the Corporate Secretary shall constitute a valid Special Meeting Request only if each such written request satisfies the requirements set forth in this Section 9.3 and has been dated and delivered to the Corporate Secretary within sixty (60) days of the earliest dated of such requests. If the record holder is not the signatory to the Special Meeting Request, such Special Meeting Request will not be valid unless documentary evidence from the record holder is supplied to the Corporate Secretary at the time of delivery of such Special Meeting Request (or within ten (10) business days thereafter) of such signatory's authority to execute the Special Meeting Request on behalf of the record holder. The determination of the validity of a Special Meeting Request shall be made in good faith by the board of directors (and which determination shall be conclusive and binding) and the date of such determination is referred to herein as the "Request Receipt Date." A Special Meeting Request shall not be valid if: (i) such Special Meeting Request relates to an item of business that is not a matter on which stockholders are authorized to act under, or that involves a violation of, applicable law, or (ii) such Special Meeting Request relates to an item of business that is the same or substantially similar (as determined in good faith by the board of directors, a "Similar Item" (and which determination shall be conclusive and binding)) to any item of business that was presented at a meeting of stockholders occurring within ninety (90) days preceding the earliest dated request for a special meeting, or (iii) the Request Receipt Date occurs during the period commencing ninety (90) days prior to the first anniversary of the date of the most recent annual meeting of stockholders and ending on the date of the next annual meeting of stockholders. For purposes of this Section 9.3, the election of directors shall be deemed to be a "Similar Item" with respect to all items of business involving the election or removal of directors, changing the size of the board of directors and the filling of vacancies and/or newly created directorships resulting from an increase in the number of directors).
 - iii. Notwithstanding any other provision of these bylaws, any stockholder (an "Initiating Stockholder") seeking to engage in a solicitation (as the term "solicitation" is defined under Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (or any subsequent provisions replacing such Act or regulations)), disregarding clause (iv) of Rule 14a-1(1)(2) and including any otherwise exempt solicitation pursuant to Rule 14a-2(b) to attain the Requisite Percent (a "Requisite Percent Solicitation") shall first deliver to the Corporate Secretary at the principal executive offices of the corporation a request that the board of directors fix a record date to determine the stockholders entitled to deliver a Special Meeting Request in connection with such Requisite Percent Solicitation (the "Requisite Percent Solicitation Record Date"). The request for a Requisite Percent Solicitation Record Date shall: (i) contain a representation that the Initiating Stockholder plans to engage in a Requisite Percent Solicitation to attain the Requisite Percent; (ii) describe the matter or matters to be taken at the proposed special
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meeting; and (iii) contain, with respect to the Initiating Stockholder and each person that is part of a group (within the meaning of Section 13(d) of the Exchange Act and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations)) with the Initiating Stockholder, the information, representations, and completed and signed questionnaires (as applicable) required under Section 9.3(b)(1) of these bylaws, which shall be updated and supplemented in accordance with the requirements of Section 9.3(b)(1)(iii). Following delivery of a request for a Requisite Percent Solicitation Record Date, the board of directors may, by the later of: (i) ten (10) days after delivery of such request, and (ii) five (5) days after delivery of all information requested by the corporation to determine the validity of such request (including whether such request relates to a matter that may be considered at a Stockholder Requested Special Meeting pursuant to this Section 9.3), determine the validity of such request and, if appropriate, adopt a resolution fixing the Requisite Percent Solicitation Record Date. The Requisite Percent Solicitation Record Date shall be no more than ten (10) days after the date upon which the resolution fixing the Requisite Percent Solicitation Record Date is adopted by the board of directors and shall not precede the date on which such resolution is adopted. If a valid request for a Requisite Percent Solicitation Record Date has been duly delivered to the Corporate Secretary but no Requisite Percent Solicitation Record Date has been fixed by the board of directors by the date required by the third sentence of this paragraph, the Requisite Percent Solicitation Record Date shall be at the close of business on the first date on which a valid request for the Requisite Percent Solicitation Record Date is delivered to the Corporate Secretary in accordance with this Section 9.3. To be valid, any Special Meeting Request that has been the subject of a Requisite Percent Solicitation must be delivered to the Corporate Secretary no earlier than the applicable Requisite Percent Solicitation Record Date and no later than sixty (60) days after the applicable Requisite Percent Solicitation Record Date.

- iv. The corporation may require any Initiating Stockholder, and any other person seeking to request a special meeting, to furnish such other information as may reasonably be required by the corporation to determine the validity of any Special Meeting Request, and to determine whether any such request relates to a matter that may be considered at a Stockholder Requested Special Meeting.
 - c. *Holding a Special Meeting.* Any special meeting of stockholders shall be held at such date and time as may be fixed by the board of directors in accordance with these bylaws; provided, however, that a Stockholder Requested Special Meeting shall be called for a date not later than the date that is (1) ninety (90) days after the Request Receipt Date (or, in the case of any litigation related to the validity of the requests for a Stockholder Requested Special Meeting, ninety (90) days after the resolution of such litigation), or (2) fifty (50) days after the date the corporation files definitive soliciting materials with respect to such meeting pursuant to Schedule 14A under the Exchange Act, whichever is latest.
 - d. *Business Transacted at a Special Meeting.* Business transacted at a Stockholder Requested Special Meeting shall be limited to (1) the business stated in the valid Special Meeting Request(s) received from the Requisite Percent of stockholders, (2) any additional business that the board of directors determines to include in the corporation's notice of meeting, and (3) in the case of nominees for director nominated by a stockholder who has not delivered, and has not directed the delivery of, a Special Meeting Request with respect to the Stockholder Requested Special Meeting, nominees proposed in accordance with Section 9.16(c). If none of the stockholders who submitted the Special Meeting Request(s) (or their qualified representatives, as defined in Section 9.16(d)(1)) appears at the Stockholder Requested Special Meeting to present the matter or matters to be brought before the special meeting that were specified in the Special Meeting Request(s), the corporation need not present the matter or matters for a vote at the meeting, notwithstanding that proxies in respect of such vote may have been received by the corporation.
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- e. *Revocation of Special Meeting Request.* The stockholder seeking to call the special meeting may revoke a Special Meeting Request by written revocation delivered to, or mailed and received by, the Corporate Secretary at any time prior to the special meeting and any stockholder signing a Special Meeting Request may revoke such request as to the shares that such person Owns (or that are Owned by the person on whose behalf the stockholder is acting, as applicable) and shall be deemed to revoke a Special Meeting Request as and to the extent provided in Section 9.3(b)(1)(iii); provided that if as a result of such revocation(s), there no longer are valid unrevoked Special Meeting Request(s) from stockholders who Own the Requisite Percent of the voting power of the then outstanding Voting Stock entitled to vote on the matter or matters to be brought before the proposed special meeting, there shall be no requirement to call a special meeting. Further, in the event that the stockholder requesting the Stockholder Requested Special Meeting withdraws such Special Meeting Request, there shall be no requirement to call or hold such special meeting.

SECTION 9.4. NOTICE OF MEETINGS.

- a. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given not less than ten (10) nor more than sixty (60) days before the day of the meeting to each stockholder entitled to vote thereat. Such notice shall state the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting and (1) in the case of a special meeting, the general nature of the business to be transacted, and no other business may be transacted, or (2) in the case of the annual meeting, those matters which the board, at the time of the mailing of the notice, intends to present for action by the stockholders, but subject to provisions of subdivision (b) any proper matter may be presented at the meeting for such action. The notice of any meeting at which directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by management for election.
- b. Any stockholder approval at a meeting on any matter, other than unanimous approval by those entitled to vote, on any of the matters listed below shall be valid only if the general nature of the proposal so approved was stated in the notice of meeting or in any written waiver of notice:
- i. a proposal to approve a contract or other transaction between the corporation and one or more of its directors, or between the corporation and any corporation, firm or association in which one or more directors has a material financial interest;
 - ii. a proposal to amend the certificate of incorporation;
 - iii. a proposal regarding a reorganization, merger or consolidation involving the corporation;
 - iv. a proposal to wind up and dissolve the corporation; or
 - v. a proposal to adopt a plan of distribution of the shares, obligations or securities of any other corporation, domestic or foreign, or assets other than money which is not in accordance with the liquidation rights of any preferred shares as specified in the certificate of incorporation.

SECTION 9.5. DELIVERY OF NOTICE.

Notice of a stockholders' meeting or any report shall be given either personally or by mail or other means of written communication, addressed to the stockholder at the address of such stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice; or if no such address appears or is given, at the place where the principal executive office of the corporation is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located. The notice or report shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication. An affidavit of mailing of any notice or report in accordance with the provisions of this section, executed by the Corporate Secretary or any transfer agent, shall be prima facie evidence of the giving of notice or report.

If any notice or report addressed to the stockholders at the address of such stockholder appearing on the books of the corporation is returned to the corporation by United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice or report to the stockholder at such address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available for the stockholder upon written demand of the stockholder at the principal executive office of the corporation for a period of one year from the date of the giving of the notice to all other stockholders.

SECTION 9.6. ADJOURNED MEETINGS.

When a stockholders' meeting is adjourned to another time or place (including an adjournment taken to address a technical failure to convene or continue a meeting using remote communication), unless the bylaws otherwise require and except as provided in this section, notice need not be given of the adjourned meeting if the place, if any, and date and time thereof, and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting are: (a) announced at the meeting at which the adjournment is taken; (b) displayed, during the time scheduled for the meeting, on the same electronic network used to enable stockholders and proxyholders to participate in the meeting by means of remote communication; or (c) set forth in the notice of meeting given in accordance with Section 9.4 of these bylaws. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 9.7. ATTENDANCE AT STOCKHOLDERS' MEETING.

Attendance of a person at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by the Delaware General Corporation Law to be included in the notice but not so included in the notice if such objection is expressly made at the meeting.

SECTION 9.8. QUORUM.

- a. The presence in person or by proxy at any meeting of persons entitled to cast a majority of the votes entitled to be cast by the outstanding voting shares shall constitute a quorum for the transaction of business. If a quorum is present, the affirmative vote of a majority of votes entitled to be cast by the shares represented at the meeting and entitled to vote (the "Voting Stock") on any matter shall be the act of the stockholders, unless the vote of a different number or voting by classes is required by law or the certificate of incorporation or these bylaws and except as provided in subdivision (b).
- b. The stockholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken (other than (i) adjournment or (ii) an election of directors, which shall be governed by Section 9.13) is approved by an affirmative vote equal to at least a majority of the votes required to constitute a quorum.
- c. In the absence of a quorum, any meeting of stockholders may be adjourned from time to time by the vote of a majority of votes entitled to be cast by the shares represented either in person or by proxy, but no other business may be transacted, except as provided in subdivision (b).

SECTION 9.9. ACTIONS WITHOUT MEETING.

As provided in the certificate of incorporation, stockholders may not take action by written consent without a stockholder meeting held in accordance with applicable law and these bylaws.

SECTION 9.10. VOTING RIGHTS.

Each holder of common shares entitled to be voted shall be entitled to one vote for each common share with respect to each matter submitted to a vote of stockholders. Any holder of shares entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, other than elections to office for which plurality voting applies, but, if the stockholder fails to specify the number of shares such stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares such stockholder is entitled to vote.

SECTION 9.11. DETERMINATION OF HOLDERS OF RECORD.

- a. In order that the corporation may determine the stockholders entitled to notice of any meeting or to vote or entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days prior to the date of such meeting nor more than sixty (60) days prior to any other action.
- b. In the absence of any record date set by the board of directors pursuant to subdivision (a) above, then:
 - i. The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.
 - ii. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.
 - iii. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board fixes a new record date for the adjourned meeting, but the board shall fix a new record date if the meeting is adjourned for more than thirty (30) days from the date set for the original meeting.
- c. Stockholders on the record date are entitled to notice and to vote or to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the certificate or these bylaws or by agreement or applicable law.

SECTION 9.12. ELECTIONS FOR DIRECTORS.

- a. No stockholder shall be entitled to cumulate votes (i.e., cast for any one or more candidates a number of votes greater than the number of votes to which the stockholder's shares are entitled pursuant to Section 9.11).
 - b. At all meetings of stockholders for the election of directors at which a quorum is present, each director shall be elected by the affirmative vote of the majority of the votes cast; provided, that if as of a date that is five (5) business days in advance of the date the corporation files its definitive proxy statement (regardless of whether or not thereafter revised or supplemented) with the Securities and Exchange Commission the number of nominees exceeds the number of directors to be elected, the directors, not exceeding the authorized number of directors as fixed by the board of directors in accordance with the bylaws, shall be elected by a plurality of the votes entitled to be cast by the shares represented at any such meeting and entitled to vote on the election of directors. For purposes of this Section 9.12(b), a majority of the votes cast means that the number of shares voted "for" a director must exceed the number of shares voted "against" that director. If, for any cause, the entire board of directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the stockholders called for that purpose in the manner provided in the bylaws.
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- c. Elections for directors need not be by ballot unless a stockholder demands election by ballot at the meeting and before the voting begins or unless the bylaws so require.

SECTION 9.13. PROXIES.

- a. Every person entitled to vote shares may authorize another person or persons to act by proxy with respect to such shares. Any proxy purporting to be executed in accordance with the provisions of the General Corporation Law of the State of Delaware shall be presumptively valid.
- b. No proxy shall be valid after the expiration of three (3) years from the date thereof unless otherwise provided in the proxy. Every proxy continues in full force and effect until revoked by the person executing it prior to the vote pursuant thereto, except as otherwise provided in this section. Such revocation may be effected by a writing delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or by attendance at the meeting and voting in person by the person executing the proxy. The dates contained on the forms of proxy presumptively determine the order of execution, regardless of the postmark dates on the envelopes in which they are mailed.
- c. A proxy is not revoked by the death or incapacity of the maker unless, before the vote is counted, written notice of such death or incapacity is received by the corporation.

SECTION 9.14. INSPECTOR OF ELECTION.

- a. In advance of any meeting of stockholders the board may appoint inspectors of election to act at the meeting and any adjournment thereof. If inspectors of election are not so appointed, or if any persons so appointed fail to appear or refuse to act, the chairman of any meeting of stockholders may, and on the request of any stockholder or a stockholder's proxy shall, appoint inspectors of election (or persons to replace those who so fail or refuse) at the meeting. The number of inspectors shall be either one (1) or three (3). If appointed at a meeting on the request of one or more stockholders or proxies, the holders of shares entitled to cast a majority of the votes entitled to be cast by the shares represented in person or by proxy shall determine whether one (1) or three (3) inspectors are to be appointed.
- b. The inspectors of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum and the authenticity, validity and effect of proxies, receive votes, ballots or consents, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes or consents, determine when the polls shall close, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all stockholders.
- c. The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three (3) inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

SECTION 9.15. INSPECTION OF STOCKHOLDER LIST AND OTHER RECORDS.

- a. The officer who has charge of the stock ledger of the corporation shall prepare and make, no later than the tenth (10th) day before each meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for ten (10) days ending on the day before the meeting date: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of meeting; or (ii) during ordinary business hours at the principal place of business of the corporation. This stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by this section or the books of the corporation, or to vote in person or by proxy at any meeting of stockholders.
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- b. Any stockholder, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hour for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records, and to make copies or extracts therefrom. A "proper purpose" shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in this state or at its principal place of business.

SECTION 9.16. NOTICE OF STOCKHOLDER BUSINESS AND NOMINATIONS.

a. *Notice of Director Nominations at Meetings of Stockholders.*

- i. At any annual meeting or Stockholder Requested Special Meeting of the stockholders, only such nominations of persons for election to the board of directors shall be made as shall have been properly brought before the meeting. (i) For nominations to be properly made at an annual meeting, nominations must be (A) specified in the corporation's notice of meeting (or any supplement thereto) given by or at the direction of the board of directors delivered pursuant to Section 9.4 of these bylaws, (B) otherwise made at the annual meeting by or at the direction of the Chairman of the board or the board of directors or (C) otherwise properly requested to be brought before the annual meeting by a stockholder of record at the time of giving notice provided for in this Section 9.16(a) of these bylaws, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 9.16(a) of these bylaws. Clause (C) of the immediately preceding sentence shall be the exclusive means for a stockholder to make nominations before an annual meeting of stockholders. (ii) For nominations to be properly made at a Stockholder Requested Special Meeting, nominations must be (a) specified in the corporation's notice of meeting given by or at the direction of the board of directors delivered pursuant to Section 9.4 of these bylaws, (b) otherwise made at the special meeting by or at the direction of the Chairman of the board or the board of directors or (c) otherwise have been properly requested to be brought before the special meeting by the stockholder in accordance with Section 9.3(b) of these bylaws or Section 9.16(c) of these bylaws. The number of nominees a stockholder may nominate for election at an annual meeting (or in the case of a stockholder giving the notice on behalf of a beneficial owner, the number of nominees a stockholder may nominate for election at the annual meeting on behalf of the beneficial owner) shall not exceed the number of directors to be elected at such annual meeting. For nominations of persons for election to the board of directors of the corporation to be properly brought before an annual meeting by a stockholder pursuant to clause(C) of paragraph (a)(1)(i) in this Section 9.16 of these bylaws, the stockholder must have given timely notice thereof in writing to the Corporate Secretary of the corporation (including the completed and signed questionnaires, and representation and agreement required by paragraph (a)(4) in this Section 9.16 of these bylaws), and timely updates and supplements thereof as required by these bylaws, in writing to the Corporate Secretary. To be timely, a stockholder's notice (including the questionnaires, and representation and agreement) shall be delivered to the Corporate Secretary at the principal executive offices of the corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of an annual meeting is more than thirty (30) days before or more than sixty (60) days after such first anniversary date of the previous year's annual meeting, or if no annual meeting was held in the prior year, notice by the stockholder to be timely must be so delivered not earlier than the one hundred twentieth (120th) day prior to the date of such annual meeting and not later than the later of the ninetieth (90th) day prior to the date of such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. In no event shall any adjournment, recess or postponement of an annual meeting or the announcement thereof commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. In addition, to be considered timely, a stockholder's notice (including the questionnaires, and representation and agreement) shall further be updated and supplemented,

if necessary, so that the information provided or required to be provided in such notice (including the questionnaires, and representation and agreement) shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to the Corporate Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for the meeting in the case of the update and supplement required to be made as of the record date, and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof.

- ii. To be in proper form, a stockholder's notice to the Corporate Secretary with respect to the nomination of directors (whether given pursuant to paragraph (a)(1) (i) in this Section 9.16 of these bylaws with respect to an annual meeting or paragraph (c) in this Section 9.16 of these bylaws with respect to a special meeting) shall set forth: (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (A) all information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election, in each case pursuant to Regulation 14A under the Exchange Act, including such person's written consent to being named in a proxy statement and form of proxy as a nominee and to serving as a director if elected, (B) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three (3) years, and any other material relationships, between or among such stockholder and beneficial owner on whose behalf the nomination is made, if any, and their respective affiliates or associates or others known to be acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others known to be acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Item 404 promulgated under Regulation S-K of the Exchange Act if the stockholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person known to be acting in concert therewith, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant, and (C) a written statement, not to exceed 500 words, in support of such person; and (ii) as to the stockholder giving the notice and any beneficial owner of the corporation's Voting Stock on whose behalf the nomination is made, and if such stockholder or beneficial owner is an entity, each individual who is a director, executive officer, general partner or managing member of such entity or of any other entity that has or shares control of such entity (any such individual or entity, a "Related Person") (A) the name and address of such stockholder, and of any such beneficial owner, as they appear on the corporation's books, and the names and addresses of any Related Person, (B) the class and number of shares of the corporation which are, directly or indirectly, owned beneficially and of record by such stockholder, any such beneficial owner and any Related Person, (C) any option, warrant, convertible security, stock appreciation right, profits interests or similar right or interest with an exercise or conversion privilege (whether or not presently exercisable or convertible) or a settlement payment or mechanism at a price related to any class of shares of the corporation or with a value derived in whole or in part from the value of any class of shares of the corporation and any other derivative positions or synthetic arrangements (including any position resulting from hedging, pledging, swap, forward contract, contract of sale, securities lending or other similar transaction relating to the corporation's capital stock), whether or not such instrument or right shall be subject to settlement in the underlying class of capital stock of the corporation or otherwise, (any of the foregoing, a "Derivative Position") held or beneficially held by the stockholder, any such beneficial owner or any Related Person, including a description of the substantive terms thereof including the amount, value and/or number so held and the extent to which any such Derivative Position is intended to have or has the effect of increasing or decreasing the actual or apparent voting power of such stockholder, beneficial owner or any Related Person with respect to the corporation's securities and information identifying all parties
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thereto, (D) any proxy (other than a revocable proxy given in response to a public proxy solicitation made pursuant to, and in accordance with, the Exchange Act), contract, arrangement, understanding or relationship, the effect or intent of which is to maintain, increase or decrease, the voting power of such stockholder, beneficial owner or any Related Person with respect to any class of shares of the corporation, (E) any short interest in any security of the corporation (for purposes of this Section 9.16 of these bylaws, a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from, or avoid, mitigate or offset in whole or in part any loss related to, any decrease in the value of the subject security), (a "Short Interest") held by such stockholder, beneficial owner or any Related Person, (F) any rights to dividends on the shares of the corporation owned beneficially by such stockholder, beneficial owner or any Related Person that are separated or separable from the underlying shares of the corporation, (G) any proportionate interest in securities of the corporation or Derivative Positions held, directly or indirectly, by a general or limited partnership in which such stockholder, beneficial owner or any Related Person is a general partner, or directly or indirectly, beneficially owns an interest in a general partner, (H) any performance related fees (other than an asset-based fee) that such stockholder, beneficial owner or any Related Person is entitled to based on any increase or decrease in the value of securities of the corporation or Derivative Positions, if any, including without limitation any such interests held by members of such person's immediate family sharing the same household, (I) a description of (1) any plans or proposals which such stockholder, beneficial owner or any Related Person may have with respect to securities of the corporation that would be required to be disclosed pursuant to Item 4 of Exchange Act Schedule 13D and (2) any agreement, arrangement or understanding with respect to the nomination between or among such stockholder, beneficial owner or any Related Person and any other person, including, without limitation, any agreements that would be required to be disclosed pursuant to Item 5 or Item 6 of Exchange Act Schedule 13D, which description shall include, in addition to all other information, information identifying all parties thereto (in the case of either clause (1) or (2), regardless of whether the requirement to file a Schedule 13D is applicable), (J) a representation as to whether the stockholder, any beneficial owner, any Related Person or any other participant (as defined in Item 4 of Schedule 14A under the Exchange Act) will engage in a solicitation with respect to such nomination and, if so, whether or not such solicitation will be conducted as an exempt solicitation under Rule 14a-2(b) of the Exchange Act, the name of each participant in such solicitation and the amount of the cost of solicitation that has been and will be borne, directly or indirectly, by each participant in such solicitation and, if the solicitation is subject to Rule 14a-19 of the Exchange Act, confirming that such person or group intends to deliver, through means satisfying each of the conditions that would be applicable to the corporation under either Exchange Act Rule 14a-16(a) or Exchange Act Rule 14a-16(n), a proxy statement and form of proxy to holders (including any beneficial owners pursuant to Rule 14b-1 and Rule 14b-2 of the Exchange Act) of at least 67% of the voting power of the capital stock of the corporation entitled to vote generally in the election of directors, (K) a representation that promptly after soliciting the percentage of stockholders referred to in the representation required under the immediately foregoing clause (J) of this paragraph, and no later than the tenth (10th) day before such meeting of stockholders, such stockholder or beneficial owner will provide the corporation with documents, which may take the form of a certified statement and documentation from a proxy solicitor, specifically demonstrating that the necessary steps have been taken to deliver a proxy statement and form of proxy to holders of such percentage of shares of the capital stock of the corporation (together with the representation required under the immediately foregoing clause (J) of this paragraph, the "Nomination Solicitation Representation"), (L) a representation that the stockholder (or a qualified representative of the stockholder) intends to appear at the meeting to make such nomination, and (M) any other information relating to such stockholder, beneficial owner and Related Person, if any, that would be required to be disclosed in a proxy statement and form or proxy or other filings required to be made in connection with solicitations of proxies for the election of directors in a contested election pursuant to Regulation 14(A) of the Exchange Act.

- iii. A stockholder's notice to the Corporate Secretary with respect to the nomination of directors (whether given pursuant to paragraph (a)(1)(i) in this Section 9.16 of these bylaws with respect to an annual meeting, Section 9.3(b) of these bylaws or paragraph (c) in this Section 9.16 of these bylaws with respect to a special meeting) must also include all completed and signed questionnaires prepared by the corporation with respect to the background and qualification of the nominee for director and the background of any other person or entity on whose behalf the nomination is being made or who is reasonably expected to participate in the solicitation of proxies with respect to the election of such person (including those questionnaires required of the corporation's directors and any other questionnaire the corporation determines is necessary or advisable to assess whether the nominee for director will satisfy any qualifications or requirements imposed by the certificate of incorporation or these bylaws, any law, rule, regulation or listing standard that may be applicable to the corporation, and the corporate governance policies and guidelines of the corporation) (which questionnaires shall be provided by the Corporate Secretary of the corporation promptly upon written request) and a signed written representation and agreement (in the form provided by the Corporate Secretary of the corporation promptly upon written request) that such nominee for director (A) is not and will not become a party to (1) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the corporation or (2) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a director of the corporation, with such person's fiduciary duties under applicable law, (B) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed to the corporation, and (C) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the corporation, and will comply with all applicable corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the corporation and any other policies and guidelines applicable to directors (which shall be provided by the Corporate Secretary of the corporation promptly upon written request). For the avoidance of doubt, all completed and signed questionnaires and all written and signed representations and agreements described in the foregoing sentence shall be deemed part of and provided to the corporation simultaneously with the stockholder's notice submitted pursuant to this Section 9.16(a) of these bylaws. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as an independent director of the corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee, which information shall be provided to the corporation promptly upon request by the corporation (but in any event within five (5) business days after such request) and deemed part of the stockholder's notice submitted pursuant to this Section 9.16(a) of these bylaws. Notwithstanding the foregoing, if any information or communication submitted pursuant to this Section 9.16(a)(3) of these bylaws is inaccurate or incomplete in any material respect (as determined by the board of directors), such information shall be deemed not to have been provided in accordance with this Section 9.16(a)(3) of these bylaws. Any stockholder providing information pursuant to this this Section 9.16(a)(3) of these bylaws shall promptly notify the Corporate Secretary of the corporation in writing at the principal executive offices of the corporation of any inaccuracy or change in any previously provided information within two (2) business days after becoming aware of such inaccuracy or change. Upon written request of the Corporate Secretary of the corporation, such stockholder shall provide, within five (5) business days after delivery of such request (or such longer period as may be specified in such request), (i) written verification, reasonably satisfactory to the corporation, to demonstrate the accuracy of any information submitted and (ii) a written affirmation of any information submitted as of an earlier date. If the stockholder giving notice of an intent to nominate a candidate for election fails to provide such written verification or affirmation within such period, the information as to which
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written verification or affirmation was requested may be deemed not to have been provided in accordance with this Section 9.16(a)(3) of these bylaws.

- iv. For nominations of persons for election to the board of directors of the corporation pursuant to Section 9.16(a)(1)(i)(A) or (B) of these bylaws or Section 9.16(c) of these bylaws with respect to a special meeting, the nominee must also provide all completed and signed questionnaires, and a representation and agreement with the same information, and delivered in accordance with the same time period that applies to nominations to be brought by a stockholder of the corporation, required by Section 9.16(a)(3) of these bylaws.
 - v. Notwithstanding anything in this Section 9.16(a) of these bylaws to the contrary, in the event that the number of directors to be elected to the corporation's board of directors at an annual meeting is increased and there is no public announcement by the corporation naming all of the nominees for director or specifying the size of the increased board of directors made by the corporation at least ten (10) days prior to the last day a stockholder may deliver a notice in accordance with clause (1) of this Section 9.16(a) of these bylaws, a stockholder's notice required by this Section 9.16(a) of these bylaws shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Corporate Secretary of the corporation at the principal executive offices of the corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the corporation.
- b. *Notice of Other Business at Meetings of Stockholders.*
- i. At any annual meeting or Stockholder Requested Special Meeting of the stockholders, only such business to be considered by the stockholders, other than nominations of persons for election to the corporation's board of directors which is addressed by Section 9.16(a) of these bylaws ("Other Business"), shall be made at such meeting of stockholders as shall have been properly brought before the meeting. (i) For proposals of Other Business to be properly brought before an annual meeting, proposals of Other Business must be: (A) specified in the corporation's notice of meeting (or any supplement thereto) given by or at the direction of the board of directors delivered pursuant to Section 9.4 of these bylaws, (B) otherwise properly made at the annual meeting, by or at the direction of the Chairman of the board or the board of directors or (C) otherwise properly requested to be brought before the annual meeting by any stockholder of the corporation in accordance with this Section 9.16(b) of these bylaws. (ii) For proposals of Other Business to be properly brought before a Stockholder Requested Special Meeting, proposals of Other Business must be: (A) specified in the corporation's notice of meeting given by or at the direction of the board of directors delivered pursuant to Section 9.4 of these bylaws, (B) otherwise properly made at the Stockholder Requested Special Meeting, by or at the direction of the Chair of the board or the board of directors or (C) otherwise have been properly requested to be brought before the Stockholder Requested Special Meeting by the stockholder in accordance with Section 9.3(b) of these bylaws. (iii) For proposals of Other Business to be properly requested by a stockholder to be made at an annual meeting of stockholders, a stockholder must (a) be entitled to vote at the meeting, (b) comply with the notice procedures and other procedures set forth in this Section 9.16 of these bylaws as to such proposal, and (c) be a stockholder of record at the time such stockholder's notice pursuant to this Section 9.16 of these bylaws is delivered to the Corporate Secretary of the corporation and at the time of the annual meeting. The immediately preceding sentence shall be the exclusive means for a stockholder to submit proposals for Other Business (other than matters properly brought under Rule 14a-8 under the Exchange Act and included in the corporation's proxy statement) to be considered at an annual meeting of stockholders.
 - ii. For a proposal of Other Business to be properly brought before an annual meeting by a stockholder pursuant to clause (i)(C) of paragraph (b)(1) of this Section 9.16 of these bylaws, the stockholder must have given timely notice thereof in writing to the Corporate Secretary of the corporation and such Other Business must otherwise be a proper matter for stockholder action. To
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be timely, a stockholder's notice shall be delivered to the Corporate Secretary at the principal executive offices of the corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of an annual meeting is more than thirty (30) days before or more than sixty (60) days after such first anniversary date of the previous year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the one hundred twentieth (120th) day prior to the date of such annual meeting and not later than the later of the ninetieth (90th) day prior to the date of such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. In no event shall any adjournment, recess or postponement of an annual meeting or the announcement thereof commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. In addition, to be considered timely, a stockholder's notice shall further be updated and supplemented, if necessary, so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to the Corporate Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for the meeting in the case of the update and supplement required to be made as of the record date, and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof.

- iii. To be in proper form, a stockholder's notice to the Corporate Secretary with respect to the Other Business (whether given pursuant to paragraph (b)(1) in this Section 9.16 of these bylaws with respect to an annual meeting or Section 9.3(c)(2) of these bylaws with respect to a special meeting) shall set forth (i) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any substantial interest (within the meaning of Item 5 of Schedule 14A under the Exchange Act) in such business of such stockholder and any beneficial owner on whose behalf the proposal is made, (ii) the text of the proposal of business (including the text of any resolutions proposed for consideration and, in the event that such proposal or business includes a proposal to amend these bylaws, the text of the proposed amendment), and (iii) as to the stockholder giving the notice, any beneficial owner of the corporation's Voting Stock on whose behalf the proposal of Other Business is made and any Related Person with respect to the proposal (A) the name and address of such stockholder, and of such beneficial owner, as they appear on the corporation's books and the names and addresses of any Related Person, (B) the class and number of shares of the corporation which are, directly or indirectly, owned beneficially and of record by such stockholder, any such beneficial owner and any Related Person, (C) any Derivative Position held or beneficially held by the stockholder, any such beneficial owner or any Related Person, including a description of the substantive terms thereof including the amount, value and/or number so held and the extent to which any such Derivative Position is intended to or has the effect of increasing or decreasing the actual or apparent voting power of such stockholder, beneficial owner or any Related Person with respect to the corporation's securities and information identifying all parties thereto, (D) any proxy (other than a revocable proxy given in response to a public proxy solicitation made pursuant to, and in accordance with, the Exchange Act), contract, arrangement, understanding or relationship, the effect or intent of which is to maintain, increase or decrease, the voting power of such stockholder, beneficial owner or any Related Person with respect to any class of shares of the corporation, (E) any Short Interest held by such stockholder, beneficial owner or any Related Person, (F) any rights to dividends on the shares of the corporation owned beneficially by such stockholder, beneficial owner or any Related Person that are separated or separable from the underlying shares of the corporation, (G) any proportionate interest in securities of the corporation or Derivative Positions held, directly or indirectly, by a general or limited partnership in which such stockholder, beneficial owner or any Related Person is a general partner, or directly or indirectly, beneficially owns an interest in a general partner, (H) any performance-related fees (other than an asset-based
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fee) that such stockholder, beneficial owner or any Related Person is entitled to based on any increase or decrease in the value of securities of the corporation or Derivative Positions, if any, including without limitation any such interests held by members of such stockholder's immediate family sharing the same household, (I) a description of (1) any plans or proposals which such stockholder, beneficial owner or any Related Person may have with respect to securities of the corporation that would be required to be disclosed pursuant to Item 4 of Exchange Act Schedule 13D and (2) any agreement, arrangement or understanding with respect to such Other Business between or among such stockholder, beneficial owner or any Related Person and any other person, including, without limitation, any agreements that would be required to be disclosed pursuant to Item 5 or Item 6 of Exchange Act Schedule 13D, which description shall include, in addition to all other information, information identifying all parties thereto (in the case of either clause (1) or (2), regardless of whether the requirement to file a Schedule 13D is applicable), (J) a representation as to whether the stockholder, any beneficial owner, any Related Person or any other participant (as defined in Item 4 of Schedule 14A under the Exchange Act) will engage in a solicitation with respect to such Other Business proposed to be brought before the meeting and, if so, whether or not such solicitation will be conducted as an exempt solicitation under Rule 14a-2(b) of the Exchange Act, the name of each participant in such solicitation and the amount of the cost of solicitation that has been and will be borne, directly or indirectly, by each participant in such solicitation and whether such person or group intends to deliver, through means satisfying each of the conditions that would be applicable to the corporation under either Exchange Act Rule 14a-16(a) or Exchange Act Rule 14a-16(n), a proxy statement and form of proxy to holders (including any beneficial owners pursuant to Rule 14b-1 and Rule 14b-2 of the Exchange Act) of at least the percentage of shares of the capital stock of the corporation entitled to vote and required under applicable law to carry the proposal of Other Business (such representation, the "Business Solicitation Representation"), (K) a representation that the stockholder (or a qualified representative of the stockholder) intends to appear at the meeting to propose such Other Business, and (L) any other information relating to such stockholder, beneficial owner and any Related Person, if any, that would be required to be disclosed in a proxy statement and form or proxy or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal pursuant to Regulation 14(A) of the Exchange Act.

c. *Special Meetings of Stockholders.*

- i. At any special meeting of the stockholders, only such business shall be conducted or considered as shall have been properly brought before the meeting pursuant to the corporation's notice of meeting pursuant to Section 9.4 of these bylaws. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected, as reflected in the corporation's notice of meeting pursuant to Section 9.4 of these bylaws, (i) by or at the direction of the board of directors or (ii) in the case of a special meeting other than a Stockholder Requested Special Meeting, or in the case of a special meeting that is a Stockholder Requested Special Meeting and the person wishing to make such nominations did not deliver, and did not otherwise direct the delivery of, a Special Meeting Request with request to such meeting, by any stockholder of the corporation who (A) is entitled to vote at the meeting, (B) complies with the notice and other procedures set forth in this Section 9.16 of these bylaws as to such nomination and (C) is a stockholder of record at the time such stockholder's notice is delivered pursuant to this Section 9.16 of these bylaws to the Corporate Secretary of the corporation and at the time of the special meeting, or (iii) in the case of a Stockholder Requested Special Meeting, by any stockholder of the corporation pursuant to Section 9.3(b). The number of nominees a stockholder may nominate for election at a special meeting (or in the case of a stockholder giving the notice on behalf of a beneficial owner, the number of nominees a stockholder may nominate for election at the special meeting on behalf of such beneficial owner) shall not exceed the number of directors to be elected at such special meeting.
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- ii. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any stockholder entitled to vote in such election of directors (other than a stockholder who has delivered, or who is acting on behalf of a person who directed the delivery of, a written request with respect to such special meeting, in the case of a Stockholder Requested Special Meeting (an “Excluded Stockholder”)) may nominate a person or persons, as the case may be, for election to the board of directors of the corporation as specified in the corporation’s notice of meeting, by delivering the stockholder’s notice in the form required by paragraphs (a)(3) and (a)(4) in this Section 9.16 of these bylaws (including the completed and signed questionnaires, and representation and agreement required by paragraph (a)(4) in this Section 9.16 of these bylaws), and timely updates and supplements thereof as required by this Section 9.16 of these bylaws, to the Corporate Secretary at the principal executive offices of the corporation not earlier than the one hundred twentieth (120th) day prior to such special meeting and not later than the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall any adjournment, recess or postponement of a special meeting or the announcement thereof commence a new time period (or extend any time period) for the giving of a stockholder’s notice as described above. In addition, to be considered timely, a stockholder’s notice (including the questionnaires, and representation and agreement) shall further be updated and supplemented, if necessary, so that the information provided or required to be provided in such notice (including the questionnaires, and representation and agreement) shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to the Corporate Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for the meeting in the case of the update and supplement required to be made as of the record date, and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof. Notwithstanding any other provision of these bylaws, in the case of a Stockholder Requested Special Meeting, no Excluded Stockholder may nominate a person for election to the board of directors at the meeting, except pursuant to the written request(s) delivered for such special meeting pursuant to Section 9.3(a). Notwithstanding any other provision of these bylaws, in the case of a Stockholder Requested Special Meeting, no stockholder may propose any other business to be considered at the meeting, except pursuant to the written request(s) delivered for such special meeting pursuant to Section 9.3(a).

d. *General.*

- i. Except as otherwise required by law, only such persons who are nominated in accordance with the procedures set forth in the certificate of incorporation, or this Section 9.16 of these bylaws and Section 9.3 (as applicable), shall be eligible to be elected at any meeting of stockholders of the corporation to serve as director and only such Other Business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 9.16 and Section 9.3 (as applicable). Except as otherwise provided by law, the certificate of incorporation or these bylaws, the chair of the meeting or any other person designated by the board of directors shall have the power and duty to determine whether a nomination or any Other Business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 9.16 of these bylaws (including whether a stockholder or beneficial owner solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in compliance with the representations set forth in the Nomination Solicitation Representation or the Business Solicitation Representation, as applicable, or complied or did not comply with the requirements of Rule 14a-19 under the Exchange Act) and, if any proposed nomination or Other Business is not in compliance with this Section 9.16 of these bylaws, including due to a failure to comply with the requirements
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of Rule 14a-19 under the Exchange Act, to declare that such defective nomination shall be disregarded or such Other Business shall not be transacted, notwithstanding that votes and proxies in respect of any such nomination or Other Business may have been received by the corporation. In furtherance and not by way of limitation of the foregoing provisions of this Section 9.16, unless otherwise required by law or otherwise determined by the chair of the meeting or any other person designated by the board of directors, if the stockholder does not provide the information required under Section 9.3(b) and/or this Section 9.16 to the corporation within the time frames specified herein, or if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the corporation to present a nomination or Other Business, such nomination shall be disregarded and such Other Business shall not be transacted, notwithstanding that votes and proxies in respect of such any such nomination or Other Business may have been received by the corporation. For purposes of Section 9.3(b) and this Section 9.16, to be considered a qualified representative of a stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or authorized by a writing executed by such stockholder (or a reliable reproduction or electronic transmission of the writing) delivered to the corporation prior to the making of such nomination or proposal at such meeting by such stockholder (and in any event not fewer than five (5) business days before the meeting) stating that such person is authorized to act for such stockholder as proxy at the meeting of stockholders.

- ii. For purposes of this Section 9.16 of these bylaws, (A) “public announcement” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act; and (B) shares shall be treated as “beneficially” owned or held by a person if the person beneficially owns such shares, directly or indirectly, for purposes of Section 13(d) of the Exchange Act and Regulations 13D and 13G thereunder or has or shares pursuant to any agreement, arrangement or understanding (whether or not in writing): (i) the right to acquire such shares (whether such right is exercisable immediately or only after the passage of time or the fulfillment of a condition or both); (ii) the right to vote such shares, alone or in concert with others; and/or (iii) investment power with respect to such shares, including the power to dispose of, or to direct the disposition of, such shares.
 - iii. Notwithstanding the foregoing provisions of this Section 9.16 of these bylaws, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 9.16 of these bylaws; provided, however, that any references in these bylaws to the Exchange Act or the rules and regulations promulgated thereunder are not intended to and shall not limit any requirements applicable to nominations or proposals of Other Business to be considered pursuant to this Section 9.16. Nothing in this Section 9.16 of these bylaws shall be deemed to affect any rights of (A) stockholders to request inclusion of proposals in the corporation’s proxy statement pursuant to Rule 14a-8 under the Exchange Act or (B) holders of any series of Preferred Stock to elect directors under specified circumstances. Subject to Rule 14a-8 and Rule 14a-19 under the Exchange Act, nothing in these bylaws shall be construed to permit any stockholder, or give any stockholder the right, to include or have disseminated or described in the corporation’s proxy statement any nomination of director or directors or any Other Business proposal.
 - iv. Any stockholder directly or indirectly soliciting proxies from other stockholders must use a proxy card color other than white, which shall be reserved for the exclusive use for solicitation by the board of directors of this corporation.
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ARTICLE 10. MEETINGS OF DIRECTORS

SECTION 10.1. PLACE OF MEETINGS.

Unless otherwise specified in the notice thereof, meetings (whether regular, special or adjourned) of the board of directors of this corporation shall be held at the principal place of business, as specified in accordance with Section 1.2 hereof, which is hereby designated as an office for such purpose in accordance with the laws of the State of Delaware, or at any other place which has been designated from time to time by the board.

SECTION 10.2. REGULAR MEETINGS.

Regular meetings of the board of directors, of which no notice need be given except as required by the laws of the State of Delaware, shall be held after the adjournment of each annual meeting of the stockholders (which meeting shall be designated the Regular Annual Meeting) and at such other times as may be designated from time to time by resolution of the board of directors.

SECTION 10.3. SPECIAL MEETINGS.

Special meetings of the board of directors may be called at any time by the Chairman of the board or the President or the Corporate Secretary or by any two or more of the directors.

SECTION 10.4. NOTICE OF MEETINGS.

Except in the case of regular meetings, notice of which has been dispensed with, the meetings of the board of directors shall be held upon four (4) days' notice by mail or forty-eight (48) hours' notice delivered personally or by telephone or electronic transmission. If the address of a director is not shown on the records and is not readily ascertainable, notice shall be addressed to him at the city or place in which the meetings of the directors are regularly held. Except as set forth in Section 9.6, notice of the time and place of holding an adjourned meeting need not be given to absent directors if the time and place be fixed at the meeting adjourned.

SECTION 10.5. QUORUM.

A majority of the authorized number of directors constitute a quorum of the board for the transaction of business. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors except as otherwise provided by law. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

SECTION 10.6. ADJOURNED MEETINGS.

A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place. If the meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

SECTION 10.7. WAIVER OF NOTICE AND CONSENT.

- a. Notice of a meeting need not be given to any director who submits a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director.
 - b. The transactions of any meeting of the board, however called and noticed or wherever held, are as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present submits a waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.
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SECTION 10.8. ACTION WITHOUT A MEETING.

Any action required or permitted to be taken by the board may be taken without a meeting, if all members of the board shall individually or collectively consent in writing or by electronic transmission to such action. Such writing or writings or electronic transmission or transmissions shall be filed with the minutes of the proceedings of the board. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form. Such action by consent in writing or by electronic transmission shall have the same force and effect as a unanimous vote of such directors.

SECTION 10.9. CONFERENCE TELEPHONE MEETINGS.

Members of the board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another.

Participation in a meeting pursuant to this section constitutes presence in person at such meeting.

SECTION 10.10. MEETINGS OF COMMITTEES.

The provisions of this section apply also to committees of the board and action by such committees and incorporators.

ARTICLE 11. SUNDRY PROVISIONS

SECTION 11.1. INSTRUMENTS IN WRITING.

All checks, drafts, demands for money and notes of the corporation, and all written contracts of the corporation, shall be signed by such officer or officers, agent or agents, as the board of directors may from time to time by resolution designate. No officer, agent, or employee of the corporation shall have power to bind the corporation by contract or otherwise unless authorized to do so by these bylaws or by the board of directors.

SECTION 11.2. FISCAL YEAR.

The fiscal year of this corporation shall be the calendar year.

SECTION 11.3. SHARES HELD BY THE CORPORATION.

Shares in other corporations standing in the name of this corporation may be voted or represented and all rights incident thereto may be exercised on behalf of this corporation by the President or by any other officer of this corporation authorized so to do by resolution of the board of directors.

SECTION 11.4. CERTIFICATES OF STOCK.

The shares of the capital stock of the corporation shall be represented by certificates, provided that the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of shares shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. There shall be issued to each holder of fully paid shares of the capital stock of the corporation represented by a certificate or certificates for such shares. Any holder of shares in the corporation shall be entitled to have a certificate signed in the name of the corporation by the Chairman or Vice Chairman of the board or the President and by the Treasurer or the Corporate Secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

SECTION 11.5. LOST CERTIFICATES.

The board of directors may by resolution provide that in the event any certificate or certificates for shares of the capital stock of the corporation shall be alleged to have been lost or destroyed, no new certificate or certificates, or uncertificated shares, shall be issued in lieu thereof until an indemnity bond in such form and in such amount as shall be approved by the President of the corporation shall have been furnished. The board of directors may adopt such other provisions and restrictions with reference to lost certificates as it shall in its discretion deem appropriate.

SECTION 11.6. CERTIFICATION AND INSPECTION OF BYLAWS.

The corporation shall keep at its principal place of business the original or a copy of these bylaws as amended to date, which shall be open to inspection by the stockholders at all reasonable times during office hours.

SECTION 11.7. NOTICES.

Any reference in these bylaws to the time a notice is given or sent means, unless otherwise expressly provided, the time a written notice by mail is deposited in the United States mail, postage prepaid; or the time any other written notice is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient; or the time any oral notice is communicated, in person or by telephone or wirelessly, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

SECTION 11.8. REPORTS TO STOCKHOLDERS.

The board of directors shall cause an annual report to be sent to the stockholders not later than one hundred twenty (120) days after the close of the fiscal year or within such shorter time period as may be required by applicable law, and such annual report shall contain such information and be accompanied by such other documents as may be required by applicable law.

ARTICLE 12. FORUM FOR ADJUDICATION OF DISPUTES

SECTION 12.1. FORUM.

Unless the corporation consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, the sole and exclusive forum for any stockholder (including any beneficial owner) to bring: (a) any derivative action or proceeding brought on behalf of the corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or employee of the corporation to the corporation or the corporation's stockholders, (c) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or the certificate of incorporation or bylaws of the corporation, (d) any action asserting a claim governed by the internal affairs doctrine, or (e) any other action asserting an internal corporate claim, as defined in Section 115 of the Delaware General Corporation Law, shall be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware); in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants.

SECTION 12.2. ENFORCEABILITY.

In furtherance and not in limitation of Section 13.3, if any provision of this Article 12 shall be held to be invalid, illegal or unenforceable as applied to any person or entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provision in any other circumstance and of the remaining provisions of this Article 12 (including, without limitation, each portion of any sentence of this Article 12 containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) and the application of such provision to other persons or entities or circumstances shall not in any way be affected or impaired thereby.

ARTICLE 13. CONSTRUCTION OF BYLAWS WITH REFERENCE TO PROVISIONS OF LAW

SECTION 13.1. DEFINITIONS.

Unless defined otherwise in these bylaws or unless the context otherwise requires, terms used herein shall have the same meaning, if any, ascribed thereto in the Delaware General Corporation Law, as amended from time to time.

SECTION 13.2. BYLAW PROVISIONS ADDITIONAL AND SUPPLEMENTAL TO PROVISIONS OF LAW.

All restrictions, limitations, requirements and other provisions of these bylaws shall be construed, insofar as possible, as supplemental and additional to all provisions of law applicable to the subject matter thereof and shall be fully complied with in addition to the said provisions of law unless such compliance shall be illegal.

SECTION 13.3. BYLAW PROVISIONS CONTRARY TO OR INCONSISTENT WITH PROVISIONS OF LAW.

Any section, subsection, subdivision, sentence, clause or phrase of these bylaws which upon being construed in the manner provided in Section 13.2 hereof, shall be contrary to or inconsistent with any applicable provision of law, shall not apply so long as said provisions of law shall remain in effect, but such result shall not affect the validity or applicability of any other portions of these bylaws, it being hereby declared that these bylaws, and each section, subsection, subdivision, sentence, clause or phrase thereof, would have been adopted irrespective of the fact that any one or more sections, subsections, subdivisions, sentences, clauses or phrases is or are illegal.

ARTICLE 14. ADOPTION, AMENDMENT OR REPEAL OF BYLAWS

SECTION 14.1. BY STOCKHOLDERS.

Bylaws may be adopted, amended or repealed by the affirmative vote of a majority of the votes entitled to be cast by the outstanding voting shares of the corporation.

SECTION 14.2. BY THE BOARD OF DIRECTORS.

Subject to the right of stockholders to adopt, amend or repeal bylaws, any bylaw may be adopted, amended or repealed by the board of directors. A bylaw adopted by the stockholders may restrict or eliminate the power of the board of directors to adopt, amend or repeal any or all bylaws.

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following description of the common stock of California Water Service Group (the "Group," "us," "our" or "we") does not purport to be complete and is subject to, and qualified in its entirety by, our certificate of incorporation, as amended ("certificate"), and our amended and restated bylaws ("bylaws"), each of which is incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part.

General

Our authorized capital stock consists of 136,000,000 shares of common stock, \$0.01 par value, and 241,000 shares of preferred stock, \$0.01 par value per share. We have one class of securities registered under Section 12 of the Securities Exchange Act of 1934, our common stock, which is listed on the New York Stock Exchange under the symbol "CWT." There are no shares of preferred stock outstanding.

Common Stock

Voting rights. The holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. A majority of the votes cast is required for stockholders to elect directors (except that directors are elected by a plurality of the votes cast in a contested director election). All other matters put to a stockholder vote generally require the approval of a majority of the votes entitled to be cast by the shares represented at a meeting of the stockholders, except as otherwise provided by our certificate or bylaws or required by law. Stockholders do not have cumulative voting rights.

Dividends. The holders of our common stock have the right to receive any dividends we declare and pay on our common stock, subject to the rights, privileges, preferences, restrictions and conditions attaching to any other class or series of our securities. After all cumulative dividends are declared and paid or set apart on any series of our preferred stock which may be outstanding, the board may declare any additional dividends on our common stock out of our surplus (the excess, if any, of our net assets over total paid-in capital) or if there is no surplus, the net profits for the current fiscal year or the fiscal year before which the dividend is declared. Our board may only declare cash dividends if after paying those dividends we would be able to pay our liabilities as they become due.

Liquidation. The holders of our common stock have the right to receive our remaining assets and funds upon liquidation, dissolution or winding-up, if any, after we pay to the holders of any series of our preferred stock the amounts they are entitled to, and after we pay all our debts and liabilities.

Preemptive, subscription and conversion rights. Our common stock is not redeemable and has no preemptive, subscription or conversion rights.

Transfer agent. The transfer agent and registrar for our common stock is Computershare Limited.

Our common stock is subject and subordinate to any rights and preferences granted under our certificate and any rights and preferences which may be granted to any series of preferred stock by our board pursuant to the authority conferred upon our board under our certificate.

Anti-Takeover Provisions

Some provisions of our certificate, bylaws and Delaware law may have the effect of delaying, discouraging or preventing a change in control of us or changes in our management. Pursuant to our certificate and bylaws:

- the board of directors is authorized to issue "blank check" preferred stock without stockholder approval;
 - the board of directors is expressly authorized to make, alter or repeal any provision of our bylaws;
 - stockholders may not cumulate votes in the election of directors;
-

- stockholders may take action only at a duly called meeting of the stockholders, and stockholders are not permitted to act by written consent;
- special meetings of the stockholders may be called by the stockholders only upon the request of stockholders owning shares representing 10% or more of the voting power of the then outstanding shares of capital stock entitled to vote on the matter or matters to be brought before the proposed special meeting;
- stockholders must satisfy advance notice procedures to submit proposals or nominate directors for consideration at a stockholders meeting; and
- we will indemnify officers and directors against losses that they may incur as a result of investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law (“DGCL”). In general, the statute prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date that the person became an interested stockholder unless, with some exceptions, the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a “business combination” includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the stockholder, and an “interested stockholder” is a person who, together with affiliates and associates, owns (or within three years prior, did own) 15% or more of the corporation’s outstanding voting stock. This provision may have the effect of delaying, deferring or preventing a change in control without further action by the stockholders.

Exclusive Forum

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for any stockholder (including any beneficial owner) to bring: (a) any derivative action or proceeding brought on our behalf; (b) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or employees to us or our stockholders; (c) any action asserting a claim arising pursuant to any provision of the DGCL, our certificate or our bylaws; (d) any action asserting a claim governed by the internal affairs doctrine; or (e) any other action asserting an internal corporate claim, as defined in Section 115 of the DGCL; in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants. It is possible that a court of law could rule that the choice of forum provision contained in our bylaws is inapplicable or unenforceable if it is challenged in a proceeding or otherwise. Such exclusive forum provision does not apply to suits brought to enforce any liability or duty created by the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended.

OFFER LETTER BETWEEN JAMES P. LYNCH AND CALIFORNIA WATER SERVICE GROUP DATED JANUARY 2, 2024

VIA – REGULAR MAIL

Dear Jim:

I am pleased to confirm your recent conversation with Marty Kropelnicki, Chairman, President & CEO regarding our offer as Senior Vice President, Chief Financial Officer & Treasurer reporting to Marty.

In this position, your starting salary will be \$39,166.67 monthly (\$470,000 annually). In addition, you will have the use of a company vehicle for business and limited personal use per our Company Vehicle Policy.

You will be eligible to participate in our At Risk Pay (ARP) plan for 2024, with a target of 40%, vesting zero to 200% based on Company performance. In addition, you are eligible for the Long Term Incentive (LTI) plan; restricted Stock Award (RSA) of \$75,000 vesting 1/3 after the first anniversary, with balance vesting over the remaining 24 months (three year vesting schedule); restricted Stock Units (RSU) of \$140,000 vesting zero to 200% based on Company performance at the end of the three (3) years performance period. RSU payouts are in Cal Water stock.

This position is eligible to participate in the Supplemental Executive Retirement Program (SERP) and funded 100% by the company.

Cal Water provides a number of comprehensive benefit programs with varying eligibility, including but not limited to the following:

- 401(k) Plan
- Comprehensive Medical, Dental and Vision Benefits through the California Water Service Health Care Plan or Kaiser Permanente Health Maintenance Organization effective your date of conversion to a regular employee. (Depending on the service area in which you reside/work)
- Supplemental Medical Plan for Executives the first day of the month following your date of conversion to a regular employee
- California Water Service Pension Plan
- Life Insurance effective date of conversion to a regular employee
- Long Term Disability
- Deferred Compensation
- Tuition Reimbursement
- Additional benefits information will be provided upon your acceptance

You will be eligible for 11 paid holidays per calendar year. After the completion of six months of service, you will be eligible for four floating holidays. Thereafter, you will receive four floating holidays per calendar year.

You are eligible for vacation under the Officer Vacation Plan. Employees in this plan do not accrue vacation, instead the Officer may take as much vacation as their job responsibilities reasonably allow.

This letter does not constitute an employment contract. Your employment with California Water Service is “at-will,” which means there is no guarantee of your continued employment nor is it for any definite term. As an “at-will” employee, you are free to quit your employment voluntarily at any time; the Company similarly is free to terminate your employment at any time without notice and without cause. The Company reserves the right to change the hours, wages, working conditions, and job responsibilities at any time. All such changes will be communicated through official notices.

Jim, we are pleased that you have accepted this position.

Sincerely,
California Water Service

Ron Webb
Vice President, Chief Human Resources Officer

cc: File

RW/tn

Please confirm acceptance of this offer by signing below and returning a copy of this letter. Thank you.

/s/ James P. Lynch January 2, 2024
Signature Date

Subsidiaries of the Registrant

<u>Subsidiary Name</u>	<u>State of Incorporation</u>	<u>Business Name</u>
California Water Service Company	California	California Water Service Company
CWS Utility Services	California	CWS Utility Services
New Mexico Water Service Company	New Mexico	New Mexico Water Service Company
Washington Water Service Company	Washington	Washington Water Service Company
Hawaii Water Service Company, Inc.	Hawaii	Hawaii Water Service Company
HWS Utility Services LLC	Hawaii	HWS Utility Services
TWSC, Inc.	Texas	TWSC, Inc.

List of Subsidiary Issuers and Guarantors

As of December 31, 2023, the Company is the guarantor of the registered mortgage bonds issued by the following entities. The Company owns, directly or indirectly, 100% of each such entity.

California Water Service Company

- a. 5.50% First Mortgage Bonds due 2040, Series PPP, issued in 2010

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos 333-234389, 333-158484, and 333-181329 on Form S-3 and Registration Statement Nos. 333-60810, 333-127495, and 333-228824 on Form S-8 of our report dated February 29, 2024, relating to the consolidated financial statements of California Water Service Group and the effectiveness of California Water Service Group's internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended December 31, 2023.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California

February 29, 2024

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
CERTIFICATION**

I, Martin A. Kropelnicki, certify that:

1. I have reviewed this annual report on Form 10-K of California Water Service Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2024

By: /s/ MARTIN A. KROPELNICKI

Martin A. Kropelnicki
Chairman, President and Chief Executive Officer

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
CERTIFICATION**

I, David B. Healey, certify that:

1. I have reviewed this annual report on Form 10-K of California Water Service Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2024

By: /s/ DAVID B. HEALEY

DAVID B. HEALEY
Principal Financial Officer

**CERTIFICATION OF CEO AND CFO
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned hereby certifies, in his capacity as an officer of California Water Service Group, that the Annual Report of California Water Service Group on Form 10-K for the period ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of California Water Service Group.

Date: February 29, 2024

By: /s/ MARTIN A. KROPELNICKI

MARTIN A. KROPELNICKI
Chairman, President and Chief Executive Officer
California Water Service Group

Date: February 29, 2024

By: /s/ DAVID B. HEALEY

DAVID B. HEALEY
Principal Financial Officer
California Water Service Group

CALIFORNIA WATER SERVICE GROUP
INCENTIVE COMPENSATION CLAWBACK POLICY

This Incentive Compensation Clawback Policy (this “Policy”) has been adopted by the Board of Directors (the “Board”) of California Water Service Group (the “Company”) effective October 2, 2023 (the “Effective Date”) and replaces in its entirety the Company’s Clawback Policy dated November 28, 2012 (the “Prior Policy”). Notwithstanding the foregoing, this Policy shall not affect any remedies or rights of recoupment that may become available to the Company under the Prior Policy with respect to any incentive compensation (or any portion thereof) that (i) was made, granted or Received prior to the Effective Date and (ii) is not recoverable under this Policy. The Board may amend or change the terms of this Policy at any time for any reason, including as required to comply with any laws, rules, regulations and listing standards that may be applicable to the Company.

Recoupment of Incentive-Based Compensation

In the event the Company is required to prepare an accounting restatement of the Company’s financial statements due to the Company’s material non-compliance with any financial reporting requirement under the federal securities laws (including any such correction that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period), the Company will recover on a reasonably prompt basis the amount of any Incentive-Based Compensation Received by a Covered Executive during the Recovery Period that exceeds the amount that otherwise would have been Received had it been determined based on the restated financial statements (each as defined below).

Policy Administration and Definitions

This Policy is administered by the Organization and Compensation Committee (the “Committee”) of the Board, subject to ratification by the independent members of the Board with respect to application of this Policy to the Company’s Chief Executive Officer, and is intended to comply with, and as applicable to be administered and interpreted consistent with, and subject to the exceptions set forth in, Listing Rule 303A.14 adopted by the New York Stock Exchange (“NYSE”) to implement Rule 10D-1 under the Securities Exchange Act of 1934, as amended (collectively, “Rule 10D-1”).

For purposes of this Policy:

- “Covered Executive” means all officers as appointed by the Board or the Board of Directors of any of the Company’s subsidiaries, including but not limited to any “executive officer” of the Company as defined under Rule 10D-1.
 - A “Financial Reporting Measure” is (i) any measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements and any measure derived wholly or in part from such a measure, and (ii) any measure based in whole or in part on the Company’s stock price or total shareholder return.
 - “Incentive-Based Compensation” means any compensation granted, earned or vested based in whole or in part on the Company’s attainment of a Financial Reporting Measure that was Received by a person (i) on or after the Effective Date and after the person began service as a Covered Executive, and (ii) who served as a Covered Executive at any time during the performance period for the Incentive-Based Compensation.
 - Incentive-Based Compensation is deemed to be “Received” in the fiscal period during which the relevant Financial Reporting Measure is attained, regardless of when the compensation is actually paid or awarded.
-

- “Recovery Period” means the three completed fiscal years immediately preceding the date that the Company is required to prepare the accounting restatement described in this Policy and any transition period of less than nine months that is within or immediately following such three fiscal years, all as determined pursuant to Rule 10D-1.

Determination by the Committee

If the Committee determines the amount of Incentive-Based Compensation Received by a Covered Executive during a Recovery Period exceeds the amount that would have been Received if determined or calculated based on the Company’s restated financial results, such excess amount of Incentive-Based Compensation shall be subject to recoupment by the Company pursuant to this Policy. For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of erroneously awarded compensation is not subject to mathematical recalculation directly from the information in an accounting restatement, the Committee will determine the amount based on a reasonable estimate of the effect of the accounting restatement on the relevant stock price or total shareholder return. In all cases, the calculation of the excess amount of Incentive-Based Compensation to be recovered will be determined on a pre-tax basis (i.e., without regard to any taxes paid with respect to such compensation). The Company will maintain and will provide to NYSE documentation of all determinations and actions taken in complying with this Policy. Any determinations made by the Committee under this Policy shall be final and binding on all affected individuals.

Methods of Clawback

The Company may effect any recovery pursuant to this Policy in any manner consistent with applicable law, including by requiring payment of such amount(s) to the Company, by set-off, by reducing future compensation, or by such other means or combination of means as the Committee determines to be appropriate. The Company need not recover the excess amount of Incentive-Based Compensation if and to the extent that the Committee determines that such recovery is impracticable, subject to and in accordance with any applicable exceptions under the NYSE listing rules and not required under Rule 10D-1, including if the Committee determines that the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered after making a reasonable attempt to recover such amounts. The Company is authorized to take appropriate steps to implement this Policy with respect to Incentive-Based Compensation arrangements with Covered Executives.

Not Exclusive Remedy

Any right of recoupment or recovery pursuant to this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any other policy, any employment agreement or plan or award terms, and any other legal remedies available to the Company (including, but not limited to, Section 304 of the Sarbanes-Oxley Act of 2002); provided that the Company shall not recoup amounts pursuant to such other policy, terms or remedies to the extent it is recovered pursuant to this Policy. The Company shall not indemnify any Covered Executive against the loss of any Incentive-Based Compensation pursuant to this Policy (or provide any advancement of expenses in such instance), nor will the Company pay or reimburse or agree to pay or reimburse any insurance premium to cover any such loss.

Certification

All Covered Executives subject to this Policy will be required to certify their understanding of and intent to comply with this Policy periodically.

Approved November 15, 2023