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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13883

**CALIFORNIA WATER SERVICE GROUP**

(Exact name of registrant as specified in its charter)

Delaware

77-0448994

(State or other jurisdiction  
of incorporation or organization)

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

1720 North First Street, San Jose, CA.

95112

(Address of principal executive offices)

(Zip Code)

408-367-8200

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 or the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding as of August 1, 2007 – 20,666,469.

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PART I FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS

The condensed consolidated financial statements presented in this filing on Form 10-Q have been prepared by management and are unaudited.

**CALIFORNIA WATER SERVICE GROUP**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

Unaudited  
(In thousands, except per share data)

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Utility plant:</b>		
Utility plant	\$ 1,394,883	\$ 1,344,415
Less accumulated depreciation and amortization	(420,321)	(402,940)
Net utility plant	<u>974,562</u>	<u>941,475</u>
<b>Current assets:</b>		
Cash and cash equivalents	29,842	60,312
Receivables:		
Customers	23,050	19,526
Other	6,134	6,700
Unbilled revenue	14,698	11,341
Materials and supplies at average cost	4,742	4,515
Prepaid pension expense	—	1,696
Taxes and other prepaid expenses	5,587	5,534
Total current assets	<u>84,053</u>	<u>109,624</u>
<b>Other assets</b>		
Regulatory assets	93,861	93,785
Other assets	22,008	20,135
Total other assets	<u>115,869</u>	<u>113,920</u>
	<u>\$ 1,174,484</u>	<u>\$ 1,165,019</u>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization:</b>		
Common stock, \$.01 par value	\$ 207	\$ 207
Additional paid-in capital	211,681	211,513
Retained earnings	163,830	166,582
Total common stockholders' equity	375,718	378,302
Preferred stock	3,475	3,475
Long-term debt, less current maturities	291,299	291,814
Total capitalization	<u>670,492</u>	<u>673,591</u>
<b>Current liabilities:</b>		
Current maturities of long-term debt	1,778	1,778
Accounts payable	37,988	33,130
Accrued expenses and other liabilities	32,503	35,317
Total current liabilities	72,269	70,225
<b>Unamortized investment tax credits</b>	2,541	2,541
<b>Deferred income taxes, net</b>	69,472	69,503
<b>Pension and postretirement benefits other than pensions</b>	48,584	48,584
<b>Regulatory and other liabilities</b>	33,629	33,411
<b>Advances for construction</b>	165,819	157,660
<b>Contributions in aid of construction</b>	111,678	109,504
<b>Commitments and contingencies</b>	—	—
	<u>\$ 1,174,484</u>	<u>\$ 1,165,019</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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## CALIFORNIA WATER SERVICE GROUP

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

## Unaudited

(In thousands, except per share data)

For the three months ended:	June 30, 2007	June 30, 2006
<b>Operating revenue</b>	<u>\$ 95,782</u>	<u>\$ 81,102</u>
<b>Operating expenses:</b>		
Water production costs	37,271	30,210
Other operations	25,274	23,399
Maintenance	5,241	3,432
Depreciation and amortization	8,380	7,640
Income taxes	4,792	3,753
Property and other taxes	3,435	3,045
Total operating expenses	<u>84,393</u>	<u>71,479</u>
Net operating income	<u>11,389</u>	<u>9,623</u>
<b>Other income and expenses:</b>		
Non-regulated revenue	3,423	2,206
Non-regulated expense	(1,966)	(1,800)
Gain (loss) on sale of non-utility property	(83)	323
Less: income taxes on other income and expenses	<u>(560)</u>	<u>(297)</u>
Total other income and expenses	<u>814</u>	<u>432</u>
<b>Interest expense:</b>		
Interest expense	4,926	4,970
Less: capitalized interest	<u>(450)</u>	<u>(625)</u>
Net interest expense	<u>4,476</u>	<u>4,345</u>
<b>Net income</b>	<u>\$ 7,727</u>	<u>\$ 5,710</u>
<b>Earnings per share</b>		
Basic	<u>\$ 0.37</u>	<u>\$ 0.31</u>
Diluted	<u>\$ 0.37</u>	<u>\$ 0.31</u>
<b>Weighted average shares outstanding</b>		
Basic	<u>20,666</u>	<u>18,407</u>
Diluted	<u>20,690</u>	<u>18,427</u>
<b>Dividends per share of common stock</b>	<u>\$ 0.2900</u>	<u>\$ 0.2875</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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## CALIFORNIA WATER SERVICE GROUP

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(In thousands, except per share data)

For the six months ended:	June 30, 2007	June 30, 2006
<b>Operating revenue</b>	<u>\$ 167,352</u>	<u>\$ 146,318</u>
<b>Operating expenses:</b>		
Water production costs	63,084	51,639
Other operations	48,930	47,187
Maintenance	9,750	7,330
Depreciation and amortization	16,781	15,349
Income taxes	5,336	4,041
Property and other taxes	6,840	6,221
Total operating expenses	<u>150,721</u>	<u>131,767</u>
Net operating income	<u>16,631</u>	<u>14,551</u>
<b>Other income and expenses:</b>		
Non-regulated revenue	6,465	4,355
Non-regulated expenses	(3,717)	(3,339)
Gain (loss) on sale of non-utility property	(83)	348
Less: income taxes on other income and expenses	(1,086)	(556)
Total other income and expenses	<u>1,579</u>	<u>808</u>
<b>Interest expense:</b>		
Interest expense	9,852	9,667
Less: capitalized interest	(950)	(850)
Total interest expense	<u>8,902</u>	<u>8,817</u>
<b>Net income</b>	<u>\$ 9,308</u>	<u>\$ 6,542</u>
<b>Earnings per share</b>		
Basic	<u>\$ 0.45</u>	<u>\$ 0.35</u>
Diluted	<u>\$ 0.45</u>	<u>\$ 0.35</u>
<b>Weighted average shares outstanding</b>		
Basic	<u>20,663</u>	<u>18,404</u>
Diluted	<u>20,687</u>	<u>18,427</u>
<b>Dividends per share of common stock</b>	<u>\$ 0.5800</u>	<u>\$ 0.5750</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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## CALIFORNIA WATER SERVICE GROUP

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(In thousands)

For the six months ended:

	June 30, 2007	June 30, 2006
<b>Operating activities</b>		
Net income	\$ 9,308	\$ 6,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,781	15,349
Amortization of debt	337	330
Deferred income taxes, investment tax credits, regulatory assets and liabilities, net	57	1,290
(Gain) loss on sale of non-utility property	83	(348)
Changes in operating assets and liabilities:		
Receivables	(2,937)	(4,069)
Unbilled revenue	(3,358)	(2,576)
Taxes and other prepaid expenses	(689)	1,210
Accounts payable	6,535	3,097
Other current assets	(227)	(730)
Other current liabilities	(2,814)	3,915
Other changes, net	(1,840)	(952)
Net adjustments	11,928	16,516
Net cash provided by operating activities	<u>21,236</u>	<u>23,058</u>
<b>Investing activities:</b>		
Utility plant expenditures:		
Company funded	(39,368)	(46,617)
Developer funded	(11,903)	(13,814)
Acquisition	(30)	(13)
Proceeds from sale of non-utility property	—	353
Net cash used in investing activities	<u>(51,301)</u>	<u>(60,091)</u>
<b>Financing activities:</b>		
Net short-term borrowings	—	26,000
Net repayment of long-term debt	(514)	(444)
Advances for construction	11,362	11,480
Refunds of advances for construction	(3,203)	(2,520)
Contributions in aid of construction	3,842	5,452
Issuance of common stock	168	392
Dividends paid	(12,060)	(10,658)
Net cash (used in) provided by financing activities	<u>(405)</u>	<u>29,702</u>
Change in cash and cash equivalents	(30,470)	(7,331)
Cash and cash equivalents at beginning of period	60,312	9,533
Cash and cash equivalents at end of period	<u>\$ 29,842</u>	<u>\$ 2,202</u>
<b>Supplemental disclosure of non-cash activities:</b>		
Accrued payables for investments in utility plant	\$ 8,801	\$ 7,572

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CALIFORNIA WATER SERVICE GROUP

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2007

(Amounts in thousands, except share and per share amounts)

Note 1. Organization and Operations

California Water Service Group (the Company) is a holding company with five wholly owned subsidiaries that provide water utility and other related services in California, Washington, New Mexico and Hawaii. 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 (Commissions). In addition, these entities and CWS Utility Services provide non-regulated water utility and utility-related services.

The Company operates primarily in one business segment providing water utility services.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The interim financial information is unaudited. The condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2006, included in its Form 10-K as filed with the Securities and Exchange Commission (SEC) on March 14, 2007.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments that are necessary to provide a fair presentation of the results for the periods covered. The adjustments consist only of normal recurring adjustments. The results for interim periods are not necessarily indicative of the results for any future period.

The preparation of the Company's condensed consolidated financial statements necessarily 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 condensed consolidated balance sheet dates, and the reported amounts of revenues and expenses for the periods presented.

Certain prior year's amounts have been reclassified, where necessary, to conform to the current presentation as follows: on the income statement, non-regulated income and non-regulated expenses which were previously netted in the income statement have been presented separately; also, prior year amounts for income taxes associated with other income and expenses were reclassified from income taxes included in operating expenses to income taxes on other income and expenses. On the statements of cash flows, prior year amounts for company-funded utility plant expenditures and accounts payable have been reduced for non-cash activities.

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### Revenue

Revenue consists of monthly cycle billings for regulated water and wastewater services at rates authorized by the Commissions and billings to certain non-regulated customers. Billings include a fee that is paid to the Commissions. This amount is recorded in revenue and other operations expense. Fees paid to the Commissions for the six months ending June 30, 2007, and June 30, 2006, were \$2,178 and \$1,864, respectively.

### Other Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements." The statement defines fair value, establishes a framework for measuring fair values in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective for years beginning after November 15, 2007. The adoption of this statement is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115." The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The statement is effective for years beginning after November 15, 2007. The adoption of this statement is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

### Note 3. Seasonal Business

Due to the seasonal nature of the water business, the results for interim periods are not indicative of the results for a twelve-month period. Revenue and income are generally higher in the warm, dry summer months when water usage and sales are greater. Revenue and income are lower in the winter months when cooler temperatures and rainfall curtail water usage and sales.

### Note 4. Stock-based Compensation

#### Long-Term Incentive Plan

The Company had a stockholder-approved Long-Term Incentive Plan (which was replaced on April 27, 2005, by a stockholder-approved Equity Incentive Plan) that allowed granting of non-qualified stock options. The Company accounted for options issued under the Long-Term Incentive Plan using the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." All outstanding options have an exercise price equal to the market price on the date they were granted. All options granted under the Long-Term Incentive Plan are fully vested. No compensation expense was recorded for the six-month periods ended June 30, 2007 and 2006 related to stock options issued under the Long-Term Incentive Plan.



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The table below reflects the stock options granted under the Long-Term Incentive Plan.

	Shares	Weighted Average Exercise Price
Stock Options:		
Outstanding at December 31, 2006	90,500	\$ 24.94
Exercised	- 0 -	- 0 -
Forfeited	- 0 -	- 0 -
Outstanding at June 30, 2007	<u>90,500</u>	<u>\$ 24.94</u>
Exercisable at June 30, 2007	<u>90,500</u>	<u>\$ 24.94</u>

### Equity Incentive Plan

The Equity Incentive Plan, which was approved by shareholders in April 2005, is authorized to issue up to 1,000,000 shares of common stock. In the first quarter of 2007 and 2006, the Company granted Restricted Stock Awards (RSAs) of 9,770 and 9,142 shares, respectively, of common stock to employees and directors of the Company. Employee awards vest ratably over 48 months, while director awards generally vest at the end of 12 months. The shares were valued at \$38.11 and \$38.51 per share, respectively, based upon the fair market value of the Company's common stock on the date of grant. In the first six months of 2007 and 2006, the Company granted Stock Appreciation Rights (SARs) equivalent to 22,140 and 40,000 shares, respectively, to employees, which vest ratably over 48 months and expire at the end of 10 years. The grant-date fair value for SARs was determined using the Black Scholes model, which arrived at a fair value of \$10.36 and \$7.73 per share, respectively. Upon exercise of a SAR, the appreciation is payable in common shares of the Company.

The assumptions utilized in calculation of the SAR fair value were:

	2007	2006
Expected dividend yield	2.99%	2.99%
Expected volatility	32.79%	21.90%
Risk-free interest rate	4.48%	4.19%
Expected holding period in years	5.2	6.0

The Company did not apply a forfeiture rate in the expense computation relating to RSAs and SARs issued to employees as they vest monthly and, as a result, the expense is recorded for actual vesting during the period. For outside directors the Company did not apply a forfeiture rate in the expense computation relating to RSAs, as the Company expects 100% to vest at the end of twelve months.

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The table below reflects SARs granted under the Equity Incentive Plan.

	Shares	Weighted Average Exercise Price
Stock Appreciation Rights		
Outstanding at December 31, 2006	37,969	\$ 38.77
Granted	22,140	38.11
Exercised	- 0 -	—
Forfeited	(469)	38.51
Outstanding at June 30, 2007	<u>59,640</u>	<u>\$ 38.53</u>
Exercisable at June 30, 2007	<u>14,453</u>	<u>\$ 38.66</u>

The Company has recorded compensation costs for the RSAs and SARs in Operating Expense, net of related tax effects, in the amount of \$56 and \$52 for the quarter ending June 30, 2007, and June 30, 2006, respectively, and \$101 and \$86 for the six months ending June 30, 2007 and 2006, respectively.

### Note 5. Earnings Per Share Calculations

The computations of basic and diluted earnings per share are noted below. RSAs are included in the weighted stock outstanding used to calculate basic earnings per share as the shares have all voting and dividend rights as issued and unrestricted common stock. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. RSAs are included in the weighted stock outstanding used to calculate dilutive earnings per share as the shares have all voting and dividend rights as issued and unrestricted common stock.

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All options are dilutive and for 2007 all SARs are antidilutive. The dilutive effect is shown in the table below.

(In thousands, except per share data)

	Three Months Ended June 30,	
	2007	2006
Net income	\$ 7,727	\$ 5,710
Less preferred dividends	38	38
Net income available to common stockholders	<u>\$ 7,689</u>	<u>\$ 5,672</u>
Weighted average common shares, basic	20,666	18,407
Dilutive common stock options and SARs (treasury method)	24	20
Shares used for dilutive computation	<u>20,690</u>	<u>18,427</u>
Net income per share — basic	<u>\$ 0.37</u>	<u>\$ 0.31</u>
Net income per share — diluted	<u>\$ 0.37</u>	<u>\$ 0.31</u>
	Six Months Ended June 30,	
	2007	2006
Net income	\$ 9,308	\$ 6,542
Less preferred dividends	76	76
Net income available to common stockholders	<u>\$ 9,232</u>	<u>\$ 6,466</u>
Weighted average common shares, basic	20,663	18,404
Dilutive common stock options and SARs (treasury method)	24	23
Shares used for dilutive computation	<u>20,687</u>	<u>18,427</u>
Net income per share — basic	<u>\$ 0.45</u>	<u>\$ 0.35</u>
Net income per share — diluted	<u>\$ 0.45</u>	<u>\$ 0.35</u>

### Note 6. Pension Plan and Other Postretirement Benefits

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The Company makes annual contributions to fund the amounts accrued for the qualified pension plan. The Company also maintains an unfunded, non-qualified, supplemental executive retirement plan. The costs of the plans are charged to expense and utility plant as appropriate.

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The Company offers medical, dental, vision, and life insurance benefits for retirees and their spouses and dependents. Participants are required to pay a premium, which offsets a portion of the cost.

Cash payments by the Company related to pension plans and other postretirement benefits were \$1,243 for the six months ended June 30, 2007. The estimated cash contribution to the pension plans for 2007 is \$7,913. The estimated contribution to the other benefits plan for 2007 is \$2,400.

The following table lists components of the pension plans and other postretirement benefits. The data listed under “pension plan” includes the qualified pension plan and the non-qualified executive supplemental retirement plan. The data listed under “other benefits” is for all other postretirement benefits.

(In thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefit		Other Benefits		Pension Benefit		Other Benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
Service cost	\$ 1,247	\$ 1,337	\$ 270	\$273	\$ 2,646	\$ 2,674	\$ 577	\$ 576
Interest cost	1,683	1,523	355	258	3,261	3,027	659	572
Expected return on plan assets	(1,431)	(1,301)	(117)	(16)	(2,852)	(2,872)	(235)	(121)
Recognized net initial APBO(1)	N/A	N/A	69	69	N/A	N/A	138	138
Amortization of prior service cost	468	477	18	18	936	953	37	37
Recognized net actuarial loss	310	179	39	32	505	384	84	65
Net periodic benefit cost	\$ 2,277	\$ 2,215	\$ 634	\$634	\$ 4,496	\$ 4,166	\$1,260	\$1,267

(1) APBO – Accumulated postretirement benefit obligation

Note 7. Income Taxes

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (FIN 48), on January 1, 2007. This interpretation prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods and disclosure and transition. At the adoption date and as of June 30, 2007, we had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

In connection with the adoption of FIN 48, the Company will include interest and penalties related to uncertain tax positions as a component of income taxes, which were zero for the six months ended June 30, 2007.

Tax years 2003 through 2006 and 2002 through 2006 are subject to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in progress.

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Note 8. Short-term Borrowings

During the second quarter, the Company and Cal Water signed bank lines of credit of \$20 million and \$55 million, respectively. The lines of credit agreements expire on April 30, 2012. The agreement with the Company requires a debt to capitalization ratio less than 0.667:1.0 and an interest coverage ratio of at least 2.5:1.0. As of June 30, 2007, the Company and Cal Water were in compliance with the bank covenants contained in the loan agreements. As of June 30, 2007, there were no borrowings outstanding.

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

This quarterly report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 (Act). Forward-looking statements in this quarterly 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 "expects," "intends," "plans," "believes," "may," "estimates," "assumes," "anticipates," "projects," "predicts," "forecasts," "should," "seeks," or variations of these words or similar expressions are intended to identify forward-looking statements. 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:

- governmental and regulatory commissions' decisions, including decisions on proper disposition of property;
- changes in regulatory commissions' policies and procedures;
- the timeliness of regulatory commissions' actions concerning rate relief;
- new legislation;
- changes in accounting valuations and estimates;
- the ability to satisfy requirements related to the Sarbanes-Oxley Act and other regulations on internal controls;
- electric power interruptions;
- increases in suppliers' prices and the availability of supplies including water and power;
- fluctuations in interest rates;
- changes in environmental compliance and water quality requirements;
- acquisitions and the ability to successfully integrate acquired companies;
- the ability to successfully implement business plans;
- changes in customer water use patterns;
- the impact of weather on water sales and operating results;
- changes in the capital markets and access to sufficient capital on satisfactory terms;
- civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type;
- the involvement of the United States in war or other hostilities;
- our ability to attract and retain qualified employees;
- labor relations matters as we negotiate with the unions;

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- restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends; and
- the risks set forth in “Risk Factors” included elsewhere in this quarterly 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 quarterly report or as of the date of any document incorporated by reference in this report, as applicable. When considering forward-looking statements, investors should keep in mind the cautionary statements in this quarterly 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.

### CRITICAL ACCOUNTING POLICIES

We maintain our accounting records in accordance with accounting principles generally accepted in the United States and as directed by the regulatory commissions to which we 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 historical experience and an understanding of current facts and circumstances. Management believes that the following accounting policies are critical because they involve a higher degree of complexity and judgment, and can have a material impact on our results of operations and financial condition.

#### Revenue Recognition

Our revenue consists of monthly cycle customer billings for regulated water and wastewater services at rates authorized by the governmental and regulatory commissions and billings to certain non-regulated customers.

Revenue from metered customers includes billings to customers based on monthly meter readings plus an estimate for water used between the customer’s last meter reading and the end of the accounting period. At June 30, 2007, our unbilled revenue amount was \$14.7 million and at December 31, 2006, the amount was \$11.3 million. The unbilled revenue amount is generally higher during the summer months when water sales are higher. The amount recorded as unbilled revenue varies depending among other factors on:

- water usage in the preceding period;
- the number of days between meter reads for each billing cycle; and
- the number of days between each cycle’s meter reading and the end of the accounting cycle.

Flat rate customers are billed in advance at the beginning of the service period. The revenue is prorated so that the portion of revenue applicable to the current accounting period is included in that period’s revenue. The portion related to a subsequent accounting period is recorded as unearned revenue on the balance sheet and recognized as revenue when earned in the subsequent accounting period. Our unearned revenue liability was \$2.2 million as of June 30, 2007, and as of December 31, 2006. This liability is included in “accrued expenses and other liabilities” on our accompanying condensed consolidated balance sheets.

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### Expense-Balancing and Memorandum Accounts

We use expense-balancing accounts and memorandum accounts to track suppliers' rate changes for purchased water, purchased power, and pump taxes that are not included in customer water rates. The cost changes are referred to as "offsetable expenses," because under certain circumstances, they are refundable from customers (or refunded to customers) in future rates designed to offset cost changes from suppliers. We do not record the balancing and memorandum accounts until the commission has authorized a change in customer rates and the customer has been billed. The cumulative net amount in the expense balancing accounts and memorandum accounts as of June 30, 2007, was approximately \$3.8 million. This amount includes certain amounts that have been filed for recovery but have not yet been authorized, and amounts that have not yet been filed for recovery. See "Regulatory Matters" below for a description of cumulative net balances of expense balancing and memorandum accounts that have been authorized for recovery.

### Regulated Utility Accounting

Because we operate extensively in a regulated business, we are subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Regulators establish rates that are expected to permit the recovery of the cost of service and a return on investment. If a portion of our operations were no longer subject to the provisions of SFAS No. 71, we would be required to write off related regulatory assets and liabilities that are not specifically recoverable and determine if other assets might be impaired. If a regulatory commission determined that a portion of our assets were not recoverable in customer rates, we would be required to determine if we had suffered an asset impairment that would require a write-down in the assets' valuation. There have been no such asset impairments as of June 30, 2007 and December 31, 2006.

### 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 bases. 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 must also assess the likelihood that deferred tax assets will be recovered in future taxable income and, to the extent recovery is unlikely, a valuation allowance would be recorded. If a valuation allowance were required, it could significantly increase income tax expense. In our management's view, a valuation allowance was not required at June 30, 2007 or December 31, 2006.

We anticipate that future rate action 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 us rate increases 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.



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### Pension Benefits

We incur costs associated with our pension and postretirement health care benefits 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 benefit 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 increase in funding for the pension and postretirement health care benefits plans will be recovered in future rate filings, thereby mitigating the financial impact.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans – An Amendment of FASB Statements 87, 88, 106 and 132(R)." We adopted SFAS No. 158 as of December 31, 2006 which required the full recognition of the projected benefit obligation over the fair value of plan assets, reflecting the funded status of the benefit plans, on the balance sheet.

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### RESULTS OF SECOND QUARTER 2007 OPERATIONS COMPARED TO SECOND QUARTER 2006 OPERATIONS

#### Overview

Second quarter net income was \$7.7 million equivalent to \$0.37 per common share on a diluted basis, compared to net income of \$5.7 million or \$0.31 common per share on a diluted basis in the second quarter of 2006. These positive results were primarily due to increased water usage by our customers due to dryer weather when compared with the prior year. In addition, we earned higher investment income from the cash proceeds from the equity offering in the fall of 2006. The effect of the higher number of common shares outstanding did not have a significant influence on the earnings per share.

We filed in July 2007 the General Rate Case (GRC) for Cal Water. The filing includes General Office (which covers the significant corporate costs) and eight of our districts. We are working with the California Public Utilities Commission (CPUC) as they implement their Water Action Plan. The plan focuses on four key principles, among other things, including safe, high quality water; highly reliable water supplies; efficient use of water; and reasonable rates and viable utilities.

#### Operating Revenue

Operating revenue increased \$14.7 million or 18% to \$95.8 million in the second quarter of 2007. As disclosed in the following table, the increase was due to increases in rates, increased usage by existing customers and usage by new customers.

The factors that impacted the operating revenue for the second quarter of 2007 compared to 2006 are presented in the following table (amounts in thousands):

Increase in usage by existing customers	\$ 9,886
Rate increases	4,022
Usage by new customers	<u>772</u>
Net operating revenue increase	<u>\$ 14,680</u>

The components of the rate increases are listed in the following table (amounts in thousands):

Step Rate Increase	\$ 1,798
General Rate Case (GRC) Increases	1,372
Purchased Water Offset Increases	838
Balancing Account Adjustments	(26)
Other	<u>40</u>
Total Increase in Rates	<u>\$ 4,022</u>

#### Total Operating Expenses

Total operating expenses were \$84.4 million for the three months ended June 30, 2007, versus \$71.5 million for the same period in 2006, an 18% increase.

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Water production expense consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 44% of total operating expenses. Water production expenses increased 23% compared to the same period last year.

Sources of water as a percent of total water production are listed in the following table:

	Three Months Ended June 30	
	2007	2006
Well production	48%	50%
Purchased	48%	45%
Surface	4%	5%
Total	<u>100%</u>	<u>100%</u>

Our wholly owned subsidiaries, Washington Water, New Mexico Water and Hawaii Water obtain all of their water supply from wells. The components of water production costs are shown in the table below:

	Three Months Ended June 30		
	(amounts in thousands)		
	2007	2006	Change
Purchased water	\$ 28,467	\$ 22,365	\$ 6,102
Purchased power	6,403	5,658	745
Pump taxes	2,401	2,187	214
Total	<u>\$ 37,271</u>	<u>\$ 30,210</u>	<u>\$ 7,061</u>

Purchased water costs increased primarily due to higher customer usage and higher wholesale water prices. Total water production measured in acre feet increased by 12.2% during the second quarter of 2007 as compared with the second quarter of 2006 due to the warmer weather and lack of precipitation, as compared to the same period in 2006.

Other operations expense increased 7% to \$25.3 million. Payroll charged to operations increased 16%, including wage increases and an increase in the number of employees. At June 30, 2007, there were 873 employees and at June 30, 2006, there were 850 employees.

Maintenance expenses increased by \$1.8 million to \$5.2 million in the second quarter of 2007 compared to \$3.4 million in the second quarter of 2006, due to the repair of mains, hydrants, and structures. Depreciation and amortization expense increased \$0.7 million, or 9.7%, because of 2006 capital additions.

Federal and state income taxes increased \$1.3 million, or 32.1%, from \$4.1 million in the second quarter of 2006 to \$5.4 million in the second quarter of 2007, due to increased pretax income compared to the same quarter as last year. The effective tax rate was 40.9% in the current quarter and

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41.5% for the same quarter last year. We expect the effective tax rate to be between 40% and 41% for 2007.

### Other Income and Expense

Non-regulated income, net of related expenses, was \$1.5 million for the quarter ended June 30, 2007, compared to \$0.4 million in the same period last year, which is an increase of \$1.1 million, driven primarily by an increase in investment income on short term cash and other investments. There were no property sales for the current quarter, although expenses were incurred on prior property sales. Gains from property sales were \$0.3 million for the same quarter of 2006.

### Interest Expense

Net interest expense increased \$0.1 million to \$4.5 million. This increase of interest expense was primarily due to a decrease in capitalized interest expense as compared to the prior year.

## RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 2007 COMPARED TO THE SIX MONTHS ENDED JUNE 2006

### Overview

Net income for the six-month period ended June 30, 2007, was \$9.3 million, or \$0.45 per common share on a diluted basis, compared to net income of \$6.5 million or \$0.35 per share on a diluted basis, for the six months ended June 30, 2006. These positive results were primarily due to increased water usage by our customers due to dryer weather when compared with the prior year. In addition, we earned higher investment income from the cash proceeds from the equity offering in the fall of 2006.

### Operating Revenue

Operating revenue increased \$21.0 million, or 14%, to \$167.4 million in the six-month period ended June 30, 2007. As disclosed in the following table, the increase was due to increases in rates, increased usage by existing customers due to dryer weather and less precipitation than the prior year, increases in rates, and new customers.

The factors that affected the operating revenue for the six-month period ending June 30, 2007 compared to 2006 are presented in the following table (amounts in thousands):

Usage by existing customers	\$ 13,048
Rate increases (net)	6,612
Usage by new customers	<u>1,374</u>
Net changes in operating revenue	<u>\$ 21,034</u>

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The components of the net rate increases are listed in the following table (amounts in thousands):

Step Rate Increase	\$ 3,038
General Rate Case (GRC) Increase	2,306
Purchased Water Offset Increase	1,340
Balancing Account Adjustments	(155)
Other	83
Total increase in rates	<u>\$ 6,612</u>

### Total Operating Expenses

Total operating expenses were \$150.7 million for the six months ended June 30, 2007, versus \$131.8 million for the same period in 2006, a 14% increase.

Water production expense consists of purchased water, purchased power and pump taxes. Water production expense represents the largest component of total operating expenses, accounting for approximately 42% of total operating expenses. Water production expenses increased \$11.4 million in the six months ended June 30, 2007, or 22% compared to the same period last year.

Sources of water production as a percent of total water production are listed on the following table:

	Six Months Ended June 30	
	2007	2006
Well production	45%	48%
Purchased	51%	47%
Surface	4%	5%
Total	<u>100%</u>	<u>100%</u>

Our wholly-owned operating subsidiaries, Washington Water, New Mexico Water and Hawaii Water, obtain all of their water supply from wells. The components of water production costs are shown in the table below:

	Six Months Ended June 30		
	(amounts in thousands)		
	2007	2006	Change
Purchased water	\$ 49,363	\$ 39,645	\$ 9,718
Purchased power	10,099	8,540	1,559
Pump taxes	3,622	3,454	168
Total	<u>\$ 63,084</u>	<u>\$ 51,639</u>	<u>\$ 11,445</u>

Purchased water cost increased due to higher prices from wholesaler and higher usage by customers. Included in purchased water are credits received from certain wholesale suppliers and the sale of unused water rights. The amounts of the credits were \$734 and \$631 for the six months ended June 30, 2007 and June 30, 2006, respectively. The increase in purchased power and pump taxes is primarily due to increased well production.

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Other operations expenses were \$48.9 million, increasing \$1.7 million, or 4%, for the six months ended June 30, 2007. Payroll and benefits charged to operations expense increased \$801 for the six months ended June 30, 2007. Wages for union employees increased 4%, effective January 1, 2007. Overall payroll costs (expensed and capitalized) increased 9% for the six months ended June 30, 2007, due to increases in the number of employees and higher wage rates. At June 30, 2007, there were 873 employees and at June 30, 2006, there were 850 employees. Outside services increased \$450 due to various initiatives, which included preparation of the recently filed General Rate Case.

Maintenance expense was up for the six months ended June 30, 2007, increasing \$2.4 million, or 33%. Depreciation and amortization expense increased \$1.4 million, or 9%, because of increased capital expenditures in 2006.

Federal and state income taxes increased \$1.8 million, or 40.8%, for the six months ended June 30, 2007, due to the change in taxable income. We expect the effective tax rate to be between 40% and 41% for 2007.

### Other Income and Expense

Other income was \$1.6 million for the six months ended June 30, 2007, compared to \$0.8 million for the first six-months of 2006, primarily due to increased investment income.

### Interest Expense

Net interest expense increased \$0.1 million to \$8.9 million for the period ended June 30, 2007 compared to the six-month period ended June 30, 2006.

## REGULATORY MATTERS

### Rates and Regulations

The state regulatory commissions have plenary powers setting rates and operating standards. As such, state commission decisions significantly impact our revenues, earnings, and cash flow. The amounts discussed are generally annual amounts, unless specifically 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. Most filings result in rate changes that remain in place until the next GRC. As explained below, surcharges and surcredits to recover balancing and memorandum accounts as well as the catch-up are temporary rate changes, which have specific time frames for recovery.

GRCs, step rate increase filings, and offset filings change rates to amounts that will remain in effect until the next GRC. The CPUC follows a rate case plan, which requires Cal Water to file a GRC for each of its 24 regulated operating districts every three years. In a GRC proceeding, the CPUC not only considers the utility's rate setting requests, but may consider other issues that affect the utility's rates and operations. Effective in 2004, Cal Water's GRC schedule was shifted from a calendar year to a fiscal year with test years commencing on July 1<sup>st</sup> of each year. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates. As such, Cal Water's GRC decisions, prior to 2005, were generally issued in the fourth quarter, but are expected to

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be issued in the second quarter of each year until 2011, when the updated rate case plan takes effect. A decision on the eight GRCs filed in July of 2006 was delayed beyond July 1, 2007. As required by state law, the Commission authorized interim rates incorporating the last twelve months change in CPI. Cal Water expects a final decision on the GRCs filed in July of 2006 to be issued in the third quarter of 2007. Rates from the final decision will have an effective date of July 1, 2007 for any subsequent final decision.

Between GRC filings, utilities may file step rate increases, which allow the utility to recover cost increases, primarily from inflation and incremental investment, during the second and third years of the rate case cycle. However, step rate increases are subject to a weather-normalized earnings test. Under the earnings test, the CPUC may reduce the step rate increase to prevent the utility from earning in excess of the authorized rate of return for that district. Step rate increases, which were previously approved in January, were approved in July until 2011, when the updated rate case plan takes effect.

In addition, utilities are entitled to file offset filings. Offset filings may be filed to adjust revenues for construction projects authorized in GRCs when the plant is placed in service or for rate changes charged to Cal Water for purchased water, purchased power, and pump taxes (referred to as "offsettable expenses"). Such rate changes approved in offset filings remain in effect until a GRC is approved.

Surcharges and surcredits, which are usually effective for a twelve-month period, are authorized by the CPUC to recover the memorandum and balancing accounts under- and over- collections usually due to changes in offsettable expenses. However, significant under-collection may be authorized over multiple years. Typically, an expense difference occurs during the time period from when an offsettable expense rate changes and we are allowed to adjust its water rates. Expense changes for this regulatory lag period, which is approximately two months, are booked into memorandum and balancing accounts for later recovery. These accounts are subject to reasonableness review. Future recovery of balancing account balances will be addressed in general rate cases or by advice letter filings if the account balance is greater than 2% of revenues. As of March 31, 2007 and June 30, 2007, the amount in the balancing accounts was \$2.0 million and \$3.8 million, respectively. The increase in the second quarter reflects a recent review by the Company of 2006 power rates in Southern California Edison tariff areas which the Company believes will be recoverable.

Cal Water does not record an asset (or liability) for the recovery (or refund) of expense balancing or memorandum accounts in its financial statements as revenue (refunds), nor as a receivable (or payable), until the CPUC and other regulators have authorized recovery and the customer is billed. Therefore, a timing difference may occur between the time when costs are recorded as an expense and when the associated revenues are received (or refunds are made) and booked.

## Rate Case Plan

In December 2005, the CPUC issues the California Water Action Plan. The plan focuses on four key principles, among other things, including safe, high quality water; highly reliable water supplies;

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efficient use of water; and reasonable rates and viable utilities. In accordance with the Water Action Plan's objective to streamline regulatory decision-making the Commission issued R.06-12-016 in December 2006, to address streamlining of its water rate case plan. The Commission issued D.07-05-062 on May 24, 2007 adopting a new rate case plan. As a result, Cal Water will be filing a company-wide general rate case every three years beginning in July 2009. Rates would be effective approximately 18 months from the filing date or January 1, 2011 in the first cycle. As an interim measure, the Commission will allow Cal Water to incorporate general operations costs including company benefits in rates for all districts after a decision in its 2007 general rate case. In addition, for the sixteen districts that have a delayed effective date, the Commission will authorize interim rates from the authorized effective date under the old rate case plan. These interim rates will be subject to adjustment based on a final determination in the 2009 general rate case filing.

### Pending Filings as of June 30, 2007

Cal Water has pending its 2006 GRC filings covering eight districts. The Commission has authorized interim rates and an effective date of July 1, 2007 for the general rate change. This means that when the Commission issues a final rate determination, expected in the third quarter of 2007, the rates will be made effective on July 1, 2007. Any over- or under-collected rates between July 1, 2007 and the date of a final decision will be refunded or surcharged to customers in the affected districts. The amount requested in the 2006 GRCs is approximately \$19.1 million in 2007/2008, \$3.8 million in 2008/2009, and \$3.8 million in 2009/2010. The amounts granted may vary due to a variety of factors. Over the past few years, the amount approved by the CPUC has been substantially less than the requested amount. The GRCs also requested the CPUC to consider several modifications to CPUC rate-setting procedures. The GRCs request a water revenue adjustment mechanism that would allow us to recover (refund) water revenues when actual water sales are below (above) adopted water sales in the GRCs. This proposal would decouple our revenues from conservation efforts and inaccurate weather forecasts, putting in place a mechanism similar to that employed by California's investor-owned electric utilities. The GRCs also request a full-cost balancing account that would allow us to recover changes in source of supply mix as well as price changes under current procedures. Finally, we requested that the Commission adjust our authorized rate of return if modifications are not adopted to change certain rate-setting procedures. We are unable to predict the timing and final outcome of the filings at this time.

Additionally, Decision 06-08-011 directed Cal Water to file an application to implement conservation rates and a sales decoupling mechanism. On October 23, 2006, Cal Water filed Application 06-10-026 requesting a water revenue balancing account, a conservation memorandum account, and conservation rates. This request was consolidated with applications filed by other water companies in the Commission's Order Instituting Investigation 07-01-022. A decision is expected during the third quarter of 2007.

### 2007 Regulatory Activity

Cal Water filed a general rate case application on July 3, 2007 for eight districts requesting \$44.4 million in July 2008, \$16.1 million in July 2009, and \$14.8 million in July 2010. Included in the filing is a review of the company's general operations costs including company benefits. At the conclusion of the proceeding, Cal Water would be allowed to increase rates in its other 16 districts to incorporate their portion of the adopted general operations costs. As filed, additional rate increases attributable to other districts would be \$23.1 million in July 2008 and \$5.9 million in July 2009. The



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amounts granted may vary due to a variety of factors. Over the past few years, the amount approved by the CPUC has been substantially less than the requested amount.

In January 2007, Cal Water requested step rate increases for seven districts and was authorized an increase of \$1.8 million.

In April 2007, Cal Water requested an offset rate increase for increased purchased water and pump tax costs in its Stockton District. Cal Water was authorized an increase of \$1.7 million in May 2007.

In May 2007, Cal Water requested a drought memorandum account to track lost revenue and corresponding production cost changes in three districts that purchase water from the San Francisco Public Utilities Commission (SFPUC). The SFPUC has requested 10% water conservation in its suburban service areas in 2007 due to low rainfall in the winter of 2006-2007. The requested memorandum account was granted in June 2007.

In May 2007, Cal Water requested step rate increases for fourteen districts and was authorized an increase of \$4.6 million on July 1, 2007.

In June 2007, Cal Water filed for interim rates for eight districts in the 2006 GRC for which a decision was delayed. Cal Water was authorized an interim increase of \$2.0 million in July 2007. These rates are subject to refund or adjustment based upon the final rates set in a decision on the 2006 general rate case.

In December 2006, Cal Water filed six advice letters to offset purchased water and pump tax increases of \$3.4 million from wholesale suppliers effective January 1, 2007. These advice letters were approved in January and February 2007.

In December 2006, Cal Water filed an application to allow it to recover additional funding associated with its postretirement benefit other than pensions (PBOP) or retiree healthcare plan. Currently, Cal Water funds and recognizes expenses associated with the plan on a pay-as-you-go basis. The excess expense between pay-as-you-go and accrual during the employees' expected service period has been recognized as a regulatory asset. As of December 31, 2006, the regulatory asset was approximately \$9.8 million. In February 2007, the Division of Rate Payer Advocates (DRA) filed its protest to our PBOP application. In their protest, the DRA requested to dismiss the application with prejudice. The DRA further noted that prior to their protest, the parties met several times to discuss our application. During the discussions it became apparent to the DRA that negotiations would extend beyond the deadline for filing their protest. The DRA further noted that subsequent to this filing, the parties will continue their discussions to achieve a settlement that is reasonable, consistent with the law, and in the public interest. Cal Water intends to increase its funding so the plan is funded during the employee's service period. Cal Water has established two Voluntary Employee Beneficiary Associations (VEBAs) to allow for increased funding and a current period income tax deduction. While the DRA has filed its protest, the ultimate outcome will be determined by the CPUC. Cal Water believes that the CPUC will recognize in rates the recovery of the regulatory asset and the additional funding of the plan. If the CPUC does not permit us to recover the full amount of our regulatory asset, the regulatory asset, to the extent not allowed in recovery, will be written off.

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### LIQUIDITY

#### Cash flow from Operations

Cash flow from operations were \$21.2 million for the six months ended June 30, 2007. Cash flow from operations is primarily generated by net income, non-cash expenses for depreciation and amortization, and changes in our operating assets and liabilities. Cash generated by operations varies during the year.

The water business is seasonal. 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 highest. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not available during the winter period. The increase in cash flow during the summer allows short-term borrowings to be paid down. 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. In addition, short-term borrowings are used to finance capital expenditures until long-term financing is arranged.

#### Investing Activities

During the six months ended June 30, 2007, we had company-funded capital cash expenditures of \$39.4 million. For 2007, our capital budget is approximately \$85 million.

#### Financing Activities

During the quarter ended June 30, 2007, there were no debt or equity offerings, as we had adequate funds from the equity offering of 2006. Dividend payments were higher than the prior year due to additional shares outstanding and a higher dividend rate in the current year.

#### Short-Term and Long-Term Debt

Short-term liquidity is provided by bank lines of credit and by internally generated funds. Long-term financing is accomplished through the use of both debt and equity. There were no short-term bank borrowings at June 30, 2007 and at December 31, 2006. Cash and cash equivalents were \$29.8 million at June 30, 2007, and \$60.3 million at December 31, 2006.

Cal Water has a \$55 million credit facility agreement that expires April 30, 2012. The agreement requires debt as a percent of total capitalization to be less than 67%, and an interest coverage ratio of at least 2.5:1.0. As of June 30, 2007, we have met all covenant requirements and are eligible to use the full amount of the commitment. In addition to borrowings, the credit facility allows for letters of credit up to \$10 million, which reduces the available amount to borrow when utilized. One letter of credit was outstanding at June 30, 2007, for \$0.5 million related to an insurance policy. Interest is charged on a variable basis and fees are charged for unused amounts.

A separate credit facility for \$20 million also exists for use by us and our subsidiaries, including Washington Water, New Mexico Water, and Hawaii Water. In addition to borrowings, the credit facility allows for letters of credit up to \$5 million, which would reduce the amount available to

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borrow. No letters of credit were outstanding at June 30, 2007. Interest is charged on a variable basis and fees are charged for unused amounts.

There were no significant additions to long-term debt in the six-month period ended June 30, 2007, and we made principal payments on our first mortgage bonds and other long-term debt payments of \$0.5 million during the six-month period ended June 30, 2007.

Long-term financing, which includes senior notes, other debt securities, and common stock, has 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 5 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 will be available to meet our cash flow needs through issuances in both debt and equity markets.

In September 2004, the CPUC issued a decision granting Cal Water authority to complete up to \$250 million of equity and debt financing through 2010, subject to certain restrictions.

During 2006, we raised approximately \$103 million of capital. Of this amount, \$20 million was raised through privately placed senior unsecured notes. The remaining approximately \$83 million was raised through the issuance of 2,250,000 shares of common stock. We anticipate that the majority of our 2007 capital needs will be covered by the \$103 million raised in 2006. In future periods, management anticipates funding our capital needs through a relatively balanced approach between long term debt and equity.

In September 2006, we filed a shelf registration statement with the SEC for up to \$150 million in preferred stock and common stock in addition to our prior shelf permitting up to \$35.6 million in preferred stock and common stock. On October 12, 2006, we completed an underwritten public offering of 2,250,000 shares of our common stock (including 250,000 shares pursuant to the exercise, in part, by the underwriters of their over-allotment option) at a price per share of \$36.75 to the public, raising approximately \$83 million in gross proceeds. For additional information please reference our Form 8-K, dated October 12, 2006 on file with the SEC. After issuance of these shares, we had approximately \$101 million in remaining securities available for future issuance under our shelf registration.

We do not utilize off-balance-sheet financing or utilize special purpose entity arrangements for financing. We do not have equity ownership through joint ventures or partnership arrangements.

## Credit Ratings

Cal Water's first mortgage bonds are rated by Moody's Investors Service (Moody's) and Standard & Poor's (S&P). Previously, the two major credit facility agreements contained covenants related to these debt ratings. The current agreements do not contain such covenants. Since 2004, the two credit rating agencies maintained their ratings of A2 for Moody's and A+ for S & P. Both agencies characterized us as stable. In the past, the agencies have been concerned over the rate-setting process and decisions by the CPUC. Also, concerns were raised about our present level of capital

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expenditures, which will need to be partially financed through long-term borrowings or equity offerings. Management believes we would be able to meet financing needs even if ratings were downgraded, but a rating change could result in a higher interest rate on new debt.

### Dividends, Book Value and Shareholders

The second quarter common stock dividend of \$0.2900 per share was paid on May 18, 2007, compared to a quarterly dividend in the second quarter of 2006 of \$0.2875. This was Cal Water's 250<sup>th</sup> consecutive quarterly dividend. Annualized, the 2007 dividend rate is \$1.16 per common share, compared to \$1.15 in 2006. Based on the previous 12-month earnings per share at June 30, 2007, the dividend payout ratio is 82%. For the full year 2006, the payout ratio was 86% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of 60% of net income accomplished through future earnings growth.

At its July 25, 2007 meeting, the Board declared the third quarter dividend of \$0.2900 per share payable on August 17, 2007, to stockholders of record on August 6, 2007. This will be our 251<sup>st</sup> consecutive quarterly dividend.

### 2007 Financing Plan

Cal Water is currently reviewing its financing needs for 2007 and 2008. We may consider issuing equity or long-term debt to meet our financing needs. We intend to fund our capital needs in future periods through a relatively balanced approach between long-term debt and equity.

### Book Value and Stockholders of Record

Book value per common share was \$18.18 at June 30, 2007 compared to \$18.31 at December 31, 2006.

There are approximately 2,537 stockholders of record for our common stock, as of the record date for our last shareholders meeting.

### Utility Plant Expenditures

During the six months ended June 30, 2007, capital expenditures totaled \$51.3 million; \$39.4 million was from company-funded projects and \$11.9 million was from third-party-funded projects. The planned 2007 company-funded capital expenditure budget is approximately \$85 million. The actual amount may vary from the budget number due to timing of actual payments related to current year projects and prior year projects. We do not control third-party-funded capital expenditures and therefore is unable to estimate the amount of such projects for 2007.

At June 30, 2007, construction work in progress was \$68.5 million compared to \$35.7 million at December 31, 2006. Work in progress includes projects that are under construction but not yet complete and in service.

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### WATER SUPPLY

Based on information from water management agencies and internally developed data, we believe that our various sources of water supply are sufficient to meet customer demand for the remainder of the year. Historically, about half of the water is purchased from wholesale suppliers with the other half pumped from underground wells. A small portion is developed through three local surface treatment plants.

### CONTRACTUAL OBLIGATIONS

During the six months ended June 30, 2007, there were no material changes in contractual obligations outside the normal course of business.

Item 3.

### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We do not hold, trade in or issue derivative financial instruments and therefore is not exposed to risks these instruments present. Our market risk to interest rate exposure is limited because the cost of long-term financing and short-term bank borrowings, including interest costs, is covered in consumer water rates as approved by the commissions. We do not have foreign operations; therefore, we do not have a foreign currency exchange risk. Our business is sensitive to commodity prices and is most affected by changes in purchased water and purchased power costs.

Historically, the CPUC's balancing account or offsetable expense procedures allowed for increases in purchased water and purchased power costs to be passed on to consumers. Traditionally, a significant percentage of our net income and cash flows comes from California regulated operations; therefore the CPUC's actions have a significant impact on our business. See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies — Expense Balancing and Memorandum Accounts" and "Regulatory Matters".

Item 4.

### CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the

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design and operation of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on their review of our disclosure controls and procedures, the principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are functioning effectively to provide reasonable assurance that the information required to be disclosed in periodic SEC filings is reported within the time periods specified by SEC rules and regulations.

### (b) Changes to Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 1.

#### LEGAL PROCEEDINGS

As previously reported, the Company was served with a complaint in Superior Court County of Los Angeles Case No. BC360406 for personal injury, along with other defendants, due to exposure to asbestos. The plaintiff claims to have worked for three of the Company's contractors on pipeline projects for the period 1958-1999 including Palos Verdes Water Company, a water utility acquired by us in 1970. The plaintiff alleges that the Company and other defendants are responsible for his asbestos related injuries. On April 20, 2007, the Court sustained the Company's demur without leave to amend all Plaintiff's claims alleging products liability and intentional torts. The Court also sustained the Company's demur with leave to amend on Plaintiff's claim for premise owner contractor liability, a negligence claim, alleging misconduct that may allow for punitive damages (Premise/Owner Claim), and the Court severed the Company from the accelerated trial with other named defendants. On July 3, 2007, the Court sustained the Company's demur with leave to amend on the Plaintiff's third amended complaint alleging the Premise/Owner Claim. Plaintiff has filed a fourth amended complaint restating the Premise/Owner Claim. The Company still believes that the plaintiff has failed to allege a legal claim against the Company, and the Company accordingly intends to file another demur and motions to aggressively defend itself. The Company's insurance carrier has accepted the defense of the claim, reserving certain rights along with one of the contractor's insurance company. We do not believe that the Company has any liability regarding this claim, but if the Company is found liable, any liability would probably be paid by the insurance companies. Accordingly, the Company has not recorded any liability associated with the claim.

On May 30, 2007, the Company was served with a complaint in Superior Court County of San Francisco Case No. CGC-07-274213 for personal injury, along with other defendants, due to exposure to asbestos. The plaintiffs, Company's contractor employee (Contractor Employee) and his wife claim the Company and other defendants are responsible for Contractor Employee's asbestos related injuries alleged due to product liability and negligence while Contractor Employee worked for an underground pipeline contractor. The complaint seeks unspecified general and punitive damages.

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The Company believes that plaintiffs have failed to allege a legal claim against the Company, and the Company has filed a demur and motions to aggressively defend itself. The Company has tendered the claim to its insurance carrier and intends to tender the claim to any contractor under contractual indemnification provision, once specifics of the claim are determined. We do not believe that the Company has any liability regarding this claim, but if the Company is found liable, any damages would probably be paid by insurance companies. Accordingly, the Company has not recorded any liability associated with the claim.

From time to time, we are involved in various disputes and litigation matters that arise in the ordinary course of business. Periodically, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount or the range of loss can be estimated, we accrue a liability for the estimated loss in accordance with SFAS No 5, "Accounting for Contingencies." Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation matters and may revise estimates.

While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe that the ultimate resolution of these matters will materially affect our financial position, results of operations, or cash flows.

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Item 6.

EXHIBITS

Exhibit	Description
10.16	\$20,000,000 Business Loan Agreement between Bank of America and California Water Service Group, CWS Utility Services, Washington Water Service Company, New Mexico Water Service Company, and Hawaii Water Service Company, Inc. dated May 30, 2007
10.17	\$55,000,000 Business Loan Agreement between Bank of America and California Water Service Company dated May 30, 2007
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.	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



SIGNATURES

Pursuant to the requirement 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.

CALIFORNIA WATER SERVICE GROUP  
Registrant

August 7, 2007

By: /s/ Martin A. Kropelnicki  
Martin A. Kropelnicki  
Vice President, Chief Financial Officer  
and Treasurer

Exhibit Index

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## LOAN AGREEMENT

This Agreement dated as of May 30, 2007, is among Bank of America, N.A. (the "Bank"), California Water Service Group ("Borrower 1"), CWS Utility Services ("Borrower 2"), New Mexico Water Service Company ("Borrower 3"), Washington Water Service Company ("Borrower 4"), and Hawaii Water Service Company, Inc. ("Borrower 5"). (Borrower 1, Borrower 2, Borrower 3, Borrower 4 and Borrower 5 are sometimes referred to collectively as the "Borrowers" and individually as the "Borrower").

## 1. FACILITY NO. 1: LINE OF CREDIT AMOUNT AND TERMS

1.1 Line of Credit Amount.

- (a) During the availability period described below, the Bank will provide a line of credit to the Borrowers. The amount of the line of credit (the "Facility No. 1 Commitment") is Twenty Million and 00/100 Dollars (\$20,000,000.00).
- (b) This is a revolving line of credit. During the availability period, the Borrowers may repay principal amounts and reborrow them.
- (c) The Borrowers agree not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrowers exceed this limit, the Borrowers will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and April 30, 2012, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").

1.3 Repayment Terms.

- (a) The Borrowers will pay interest on May 31, 2007, and then on the last day of each month thereafter until payment in full of any principal outstanding under this facility.
- (b) The Borrowers will repay in full any principal, interest or other charges outstanding under this facility no later than the Facility No. 1 Expiration Date. Any interest period for an optional interest rate (as described below) shall expire no later than the Facility No. 1 Expiration Date.

1.4 Interest Rate.

- (a) The interest rate is a rate per year equal to the Bank's Prime minus 1.5 percentage points.
- (b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.

1.5 Optional Interest Rates. Instead of the interest rate based on the rate stated in the paragraph entitled "Interest Rate" above, the Borrowers may elect the optional interest rates listed below for this Facility No. 1 during interest periods agreed to by the Bank and the Borrowers. The optional interest rates shall be subject to the terms and conditions described later in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion." The following optional interest rates are available:

- (a) The LIBOR Rate plus 0.25 percentage point.
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## 1.6 Letters of Credit

- (a) During the availability period, at the request of the Borrowers, the Bank will issue standby letters of credit with a maximum maturity of three hundred sixty-five (365) days but not to extend more than three hundred sixty-five (365) days beyond the Facility No. 1 Expiration Date. The standby letters of credit may include a provision providing that the maturity date will be automatically extended each year for an additional year unless the Bank gives written notice to the contrary.
- (b) The amount of the letters of credit outstanding at any one time (including the drawn and unreimbursed amounts of the letters of credit) may not exceed Five Million and 00/100 Dollars (\$5,000,000.00).
- (c) In calculating the principal amount outstanding under the Facility No. 1 Commitment, the calculation shall include the amount of any letters of credit outstanding, including amounts drawn on any letters of credit and not yet reimbursed.
- (d) The Borrowers agree:
  - (i) Any sum drawn under a letter of credit may, at the option of the Bank, be added to the principal amount outstanding under this Agreement. The amount will bear interest and be due as described elsewhere in this Agreement.
  - (ii) If there is a default under this Agreement, to immediately deposit cash collateral with the Bank as required under Section B.2 (Deposit Events.) of each Bank form Application and Agreement for Standby Letter of Credit signed by any one or more of the Borrowers.
  - (iii) The issuance of any letter of credit and any amendment to a letter of credit is subject to the Bank's written approval and must be in form and content satisfactory to the Bank and in favor of a beneficiary acceptable to the Bank.
  - (iv) To sign the Bank's form Application and Agreement for Commercial Letter of Credit or Application and Agreement for Standby Letter of Credit, as applicable.
  - (v) To pay any issuance and/or other fees that the Bank notifies the Borrowers will be charged for issuing and processing letters of credit for the Borrowers.
  - (vi) To allow the Bank to automatically charge any Borrower's checking account for applicable fees, discounts, and other charges.

## 2. OPTIONAL INTEREST RATES

2.1 Optional Rates. Each optional interest rate is a rate per year. Interest will be paid on May 31, 2007, and then on the last day of each month thereafter until payment in full of any principal outstanding under this Agreement. No Portion will be converted to a different interest rate during the applicable interest period. Upon the occurrence of an event of default under this Agreement, the Bank may terminate the availability of optional interest rates for interest periods commencing after the default occurs. At the end of each interest period, the interest rate will revert to the rate stated in the paragraph(s) entitled "Interest Rate" above, unless the Borrowers have designated another optional interest rate for the Portion.

2.2 LIBOR Rate. The election of LIBOR Rates shall be subject to the following terms and requirements:

- (a) The interest period during which the LIBOR Rate will be in effect will be one or two weeks, one month, two months, three months, four months, five months, six months, seven months, eight months, nine months, ten months, eleven months or twelve months. The first day of the interest period must be a day other than a Saturday or a Sunday on which banks are open for business in New York and London and dealing in offshore dollars (a "LIBOR Banking Day"). The last day of the interest period and the actual number of days during the interest period will be determined by the Bank using the practices of the London inter-bank market.
  - (b) Each LIBOR Rate Portion will be for an amount not less than One Hundred Thousand and 00/100 Dollars (\$100,000.00).
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- (c) The "LIBOR Rate" means the interest rate determined by the following formula. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{(1.00 - \text{Reserve Percentage})}$$

Where,

- (i) "London Inter-Bank Offered Rate" means for any applicable interest period, the rate per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as selected by the Bank from time to time) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period for U.S. Dollar deposits (for delivery on the first day of such interest period) with a term equivalent to such interest period. If such rate is not available at such time for any reason then the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which banks in London are open for business and dealing in offshore dollars.
- (ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.
- (d) The Borrowers shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon Pacific time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.
- (e) The Bank will have no obligation to accept an election for a LIBOR Rate Portion if any of the following described events has occurred and is continuing:
- (i) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate Portion are not available in the London inter-bank market; or
- (ii) The LIBOR Rate does not accurately reflect the cost of a LIBOR Rate Portion.
- (f) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.
- (g) The prepayment fee shall be equal to the amount (if any) by which
- (i) the additional interest which would have been payable on the amount prepaid had it not been paid until the last day of the interest period, using the Initial Money Market Funds Rate, exceeds
- (ii) the interest rate which would have been recoverable by the Bank by reinvesting the amount prepaid for the period starting on the date on which it was prepaid and ending on the last day of the interest period, using the Subsequent Money Market Funds Rate.

The following definitions will apply to the calculation of the prepayment fee:

"Money Market" means one or more wholesale rate markets available to the Bank, including the LIBOR, Eurodollar, and SWAP rate markets as applicable and available, or such other appropriate Money Market as determined by the Bank in its sole discretion.

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“Initial Money Market Funds Rate” means the fixed interest rate per annum, determined solely by the Bank on the date that the Borrowers request the LIBOR Rate Portion, as the rate at which the Bank would be able to borrow funds in the Money Market in the amount of the LIBOR Rate Portion and with an interest period equal to the interest period of the LIBOR Rate Portion.

“Subsequent Money Market Funds Rate” means the fixed interest rate per annum, determined solely by the Bank on the date of the prepayment, as the rate at which the Bank would be able to reinvest funds in the Money Market in the prepaid amount of the LIBOR Rate Portion for a period of time approximating the period starting on the date of the prepayment and ending on the last day of the original interest period of the LIBOR Rate Portion.

The Bank may adjust the Initial Money Market Funds Rate and the Subsequent Money Market Funds Rate to reflect the compounding, accrual basis, or other costs of the LIBOR Rate Portion. The rates shall include adjustments for reserve requirements, federal deposit insurance, and any other similar adjustment which the Bank deems appropriate. Each of the rates is the Bank’s estimate only, and the Bank is under no obligation to actually purchase or match funds for any transaction or reinvest any prepayment. The rates are not fixed by or related in any way to any rate the Bank quotes or pays for deposits accepted through its branch system. The rates will be based on information from either the Telerate or Reuters information services, The Wall Street Journal, or other information sources the Bank deems appropriate.

### 3. FEES AND EXPENSES

#### 3.1 Fees.

- (a) Periodic Commitment Fee. The Borrowers agree to pay a periodic commitment fee in the amount of Four Thousand Four Hundred Dollars (\$4,400).

This fee is due on the date of the Agreement, and on May 31<sup>st</sup> of 2008 and May 31<sup>st</sup> of each year thereafter until the expiration of the availability period.

- (b) Late Fee. To the extent permitted by law, the Borrowers agree to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank’s rights with respect to the default.

3.2 Expenses. The Borrowers agree to immediately repay the Bank for expenses that include, but are not limited to, reasonable filing, recording and search fees, appraisal fees, title report fees, and documentation fees, in each case promptly following the presentation of an invoice for the expenses.

3.3 Reimbursement Costs. The Borrowers agree to reimburse the Bank for all reasonable expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys’ fees, including any allocated costs of the Bank’s in-house counsel to the extent permitted by applicable law.

### 4. DISBURSEMENTS, PAYMENTS AND COSTS

#### 4.1 Disbursements and Payments.

- (a) Each payment by the Borrowers will be made in U.S. Dollars and immediately available funds by direct debit to a deposit account as specified below or, for payments not required to be made by direct debit, by mail to the address shown on the Borrowers’ statement or at one of the Bank’s banking centers in the United States.
- (b) Each disbursement by the Bank and each payment by the Borrowers will be evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrowers to sign one or more promissory notes.

4.2 Requests for Credit; Equal Access by all Borrowers. If there is more than one Borrower, any Borrower (or a person or persons authorized by any one of the Borrowers), acting alone, can borrow up to the full amount of credit provided under this Agreement. In addition to each Borrower’s liability for all extensions of credit made to it under this Agreement, Borrower 1 will be liable for all extensions of credit made under this Agreement to any other Borrower.

#### 4.3 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone or telefax instructions for advances or repayments or for the designation of optional interest rates and telefax requests for the issuance of letters of credit given, or purported to be given, by
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any one of the individuals authorized to sign loan agreements on behalf of any of the Borrowers, or any other individual designated by any one of such authorized signers.

- (b) Advances will be deposited in and repayments will be withdrawn from account number 14878-03863 owned by Borrower 1 or such other of the Borrowers' accounts with the Bank as designated in writing by the Borrowers.
- (c) The Borrowers will indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrowers to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

#### 4.4 Direct Debit (Pre-Billing)

- (a) The Borrowers agree that the Bank will debit deposit account number 14878-03863 owned by Borrower 1 or such other of the Borrowers' accounts with the Bank as designated in writing by the Borrowers (the "Designated Account") on the date each payment of principal and interest and any fees from the Borrowers become due (the "Due Date").
- (b) Prior to each Due Date, the Bank will mail to the Borrowers a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrowers. The calculations in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.
- (c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:
  - (i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrowers will not be in default by reason of any such discrepancy.
  - (ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

Regardless of any such discrepancy, interest will continue to accrue based on the actual amount of principal outstanding without compounding. The Bank will not pay the Borrowers interest on any overpayment.

- (d) The Borrowers will maintain sufficient funds in the Designated Account to cover each debit. If there are insufficient funds in the Designated Account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.
- (e) The Borrowers may terminate this direct debit arrangement at any time by sending written notice to the Bank at the address specified at the end of this Agreement. If the Borrowers terminate this arrangement, then the principal amount outstanding under this Agreement will at the option of the Bank bear interest at a rate per annum which is 0.5 percentage point higher than the rate of interest otherwise provided under this Agreement.

4.5 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

4.6 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

4.7 Default Rate. Upon the occurrence of any default or after maturity or after judgement has been rendered on any obligation under this Agreement, all amounts outstanding under this Agreement, including any interest, fees, or costs

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which are not paid when due, will at the option not constitute a waiver of any default. The Bank will notify the Borrowers of its decision to exercise its option to impose the default rate, and the Bank's notice will set forth the date on which the default rate became or will become effective.

## 5. CONDITIONS

Before the Bank is required to extend any credit to the Borrowers under this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

5.1 Authorization. If any Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by such Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

5.2 Governing Documents. If required by the Bank, a copy of the Borrowers' organizational documents.

5.3 Payment of Fees. Payment of all fees and other amounts due and owing to the Bank, including without limitation payment of all accrued and unpaid expenses incurred by the Bank as required by the paragraph entitled "Reimbursement Costs."

5.4 Good Standing. Certificates of good standing for each Borrower from its state of formation and from any other state in which such Borrower is required to qualify to conduct its business.

5.5 Insurance. Evidence of insurance coverage, as required in the "Covenants" section of this Agreement.

## 6. REPRESENTATIONS AND WARRANTIES

When the Borrowers sign this Agreement, and until the Bank is repaid in full, the Borrowers make the following representations and warranties. Each request for an extension of credit constitutes a renewal of these representations and warranties as of the date of the request:

6.1 Formation. If any Borrower is anything other than a natural person, it is duly formed and existing under the laws of the state or other jurisdiction where organized.

6.2 Authorization. This Agreement, and any instrument or agreement required hereunder, are within each Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.

6.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of each Borrower, enforceable against each Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.

6.4 Good Standing. In each state in which each Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes except where (other than in respect of its jurisdiction of organization) its failure to be so could not reasonably be expected to have a material adverse effect on its business condition (financial or otherwise) or ability to repay this credit.

6.5 No Conflicts. This Agreement does not conflict with any law, material agreement, or material obligation by which any Borrower is bound.

6.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of Borrowers' (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of Borrower 1 (or any guarantor).

6.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against any Borrower which, if lost, would impair such Borrower's financial condition or ability to repay the loan, except as have been disclosed in writing to the Bank.

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6.8 Permits, Franchises. Each Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.

6.9 Other Obligations. No Borrower is in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank.

6.10 Tax Matters. No Borrower has any knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank or as are being contested in good faith and by appropriate proceedings diligently conducted and as to which adequate reserves are being maintained on the books of such Borrower in accordance with GAAP.

6.11 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.

6.12 Insurance. Each Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

6.13 ERISA Plans.

- (a) Each Plan (other than a multiemployer plan) is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law except where failure to be in compliance could not reasonably be expected to have a material adverse effect on the Borrowers' business condition (financial or otherwise) or ability to repay this credit. Each Plan has received a favorable determination letter from the IRS and to the best knowledge of each Borrower, nothing has occurred which would cause the loss of such qualification. Each Borrower has fulfilled its obligations, if any, under the minimum funding standards of ERISA and the Code with respect to each Plan, and has not incurred any liability with respect to any Plan under Title IV of ERISA where such liability could reasonably be expected to have a material adverse effect on the Borrowers' business condition (financial or otherwise) or ability to repay this credit.
  - (b) There are no claims, lawsuits or actions (including by any governmental authority), and there has been no prohibited transaction or violation of the fiduciary responsibility rules, with respect to any Plan which has resulted or could reasonably be expected to result in a material adverse effect.
  - (c) With respect to any Plan subject to Title IV of ERISA:
    - (i) No reportable event has occurred under Section 4043(c) of ERISA for which the PBGC requires 30-day notice.
    - (ii) No action by the Borrowers or any ERISA Affiliate to terminate or withdraw from any Plan has been taken and no notice of intent to terminate a Plan has been filed under Section 4041 of ERISA.
    - (iii) No termination proceeding has been commenced with respect to a Plan under Section 4042 of ERISA, and no event has occurred or condition exists which might constitute grounds for the commencement of such a proceeding.
  - (d) The following terms have the meanings indicated for purposes of this Agreement:
    - (i) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
    - (ii) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.
    - (iii) "ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrowers within the meaning of Section 414(b) or (c) of the Code.
    - (iv) "PBGC" means the Pension Benefit Guaranty Corporation.
    - (v) "Plan" means a pension, profit-sharing, or stock bonus plan intended to qualify under Section 401(a) of the Code, maintained or contributed to by any Borrower or any ERISA Affiliate, including any multiemployer plan within the meaning of Section 4001(a)(3) of ERISA.
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## 7. COVENANTS

The Borrowers agree, so long as credit is available under this Agreement and until the Bank is repaid in full:

7.1 Use of Proceeds. To use the proceeds of Facility No. 1 only for working capital, permitted acquisitions, general corporate purposes and to bridge capital expenditures.

7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time. The Bank reserves the right, upon written notice to the Borrowers, to require the Borrowers and their subsidiaries to deliver financial information and statements to the Bank more frequently than otherwise provided below, and to use such additional information and statements to measure any applicable financial covenants in this Agreement.

- (a) Within ten (10) days after the date of filing with the Securities and Exchange Commission (“SEC”), the annual financial statements of Borrower 1, certified and dated by an authorized financial officer. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidated, consolidating and unconsolidated basis.
- (b) Within ten (10) days after the date of filing with the SEC, quarterly financial statements of Borrower 1 (other than the last fiscal quarter of any fiscal year), certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on a consolidated, consolidating and unconsolidated basis.
- (c) Within the same time periods that the annual and quarterly financial statements are required under subparagraphs (a) and (b) immediately above, a compliance certificate of Borrower 1 signed by an authorized financial officer, and setting forth (i) the information and computations (on a consolidated basis and in sufficient detail) of the Debt to Capitalization Ratio (as defined in Paragraph 7.3 below) and the Interest Coverage Ratio (as defined in Paragraph 7.4 below) to establish compliance with those financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action Borrower 1 is taking and proposes to take with respect thereto.
- (d) Copies of the Form 10-K Annual Report and Form 10-Q Quarterly Report for Borrower 1 within ten (10) days after the date of filing with the SEC, provided that all such reports shall be deemed delivered when delivered to the SEC and posted to EDGAR.
- (e) The annual financial projections of Borrower 1 covering the forthcoming fiscal year and specifying the assumptions used in creating the projections. The projections shall be provided to the Bank by April 30th of each year.

7.3 Debt to Capitalization Ratio. With respect to Borrower 1, to maintain on a consolidated basis a Debt to Capitalization Ratio not exceeding 0.667:1.0.

“Debt to Capitalization Ratio” means the ratio of Funded Debt to the sum of Net Worth plus Funded Debt.

“Funded Debt” of any person shall mean (i) all Indebtedness of such person for borrowed money or which have been incurred in connection with the acquisition of assets in each case having a final maturity of one or more than one year from the date of origin thereof (or which is renewable or extendible at the option of the obligor for a period or periods more than one year from the date of origin), including all payments in respect thereof that are required to be made within one year from the date of any determination of Funded Debt, whether or not the obligation to make such payments shall constitute a current liability of the obligor under GAAP, (ii) all Capitalized Rentals of such person, and (iii) all guaranties by such person of Funded Debt of others.

“Indebtedness” of a person means all obligations of such person which in accordance with GAAP shall be classified upon a balance sheet of such person as liabilities of such person, and in any event shall include all (i) obligations of such person for borrowed money or which has been incurred in connection with the acquisition of property or assets, (ii) obligations secured by any lien upon property or assets owned by such person, even though such person has not assumed or become liable for the payment of such obligations, (iii) obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such person, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of property, (iv) Capitalized Rentals and

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(v) guaranties of obligations of others of the character referred to in this definition. Notwithstanding the foregoing, the term 'Indebtedness' as it relates to Borrower 1 shall not include obligations of Borrower 1 with respect to advances for construction from third parties.

"Capitalized Rentals" of any person shall mean as of the date of any determination thereof the amount at which the aggregate Rentals due and to become due under all capitalized leases under which such person is a lessee would be reflected as a liability on a consolidated balance sheet of such person.

"Rentals" shall mean and include as of the date of any determination thereof all fixed payments (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the property) payable by a person, as lessee or sublessee under a lease of real or personal property, but shall be exclusive of any amounts required to be paid by such person (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Fixed rents under any so-called "percentage leases" shall be computed solely on the basis of the minimum rents, if any, required to be paid by the lessee regardless of sales volume or gross revenues.

"Net Worth" means the value of consolidated total assets (including leaseholds and leasehold improvements and reserves against assets) less total liabilities, including but not limited to accrued and deferred income taxes

7.4 Interest Coverage Ratio. With respect to Borrower 1, to maintain on a consolidated basis an Interest Coverage Ratio of at least 2.5:1.0.

"Interest Coverage Ratio" means, as of any date of determination, the ratio of (a) EBITDA for the period of the four prior fiscal quarters ending on such date to (b) Interest Charges for such period.

"EBITDA" means, for any period, for Borrower 1 on a consolidated basis, an amount equal to net income for such period plus (a) the following to the extent deducted in calculating such net income: (i) Interest Charges for such period, (ii) the provision for Federal, state, local and foreign income taxes payable by Borrower 1 for such period, (iii) depreciation and amortization expense for such period, (iv) other extraordinary losses of Borrower 1 reducing such net income which do not represent a cash item in such period or any future period and minus (b) the following to the extent included in calculating such net income: (i) Federal, state, local and foreign income tax credits of Borrower 1 for such period and (ii) all extraordinary non-cash gains and non-cash items increasing net income for such period.

"Interest Charges" means, for any period, for Borrower 1 on a consolidated basis, the sum of (a) all interest, premium payments, debt discount, fees, charges and related expenses of Borrower 1 in connection with borrowed money to the extent treated as interest in accordance with GAAP, and (b) the portion of rent expense of Borrower 1 with respect to such period under capital leases that is treated as interest in accordance with GAAP.

This ratio will be calculated at the end of each reporting period for which the Bank requires financial statements using the results of the twelve-month period ending with that reporting period.

7.5 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. This does not prohibit:

(a) Acquiring goods, supplies, or merchandise on normal trade credit.

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- (b) Endorsing negotiable instruments received in the usual course of business.
- (c) Obtaining surety bonds in the usual course of business.
- (d) Liabilities, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.
- (e) Additional debts and lease obligations for the acquisition of fixed assets, to the extent permitted under Paragraph 7.6(d) of this Agreement.
- (f) Additional debts assumed in connection with acquisitions permitted under Paragraph 7.9(b) of this Agreement.
- (g) Additional obligations of any Borrower consisting of first mortgage bonds or unsecured senior notes substantially similar in amount and structure to those certain first mortgage bonds and unsecured senior notes that are obligations of California Water Service Company ("CWSC") and are outstanding as of the date of this Agreement.
- (h) Operating leases entered into in the ordinary course of business.
- (i) Contingent obligations in respect of customary indemnification and purchase price adjustment obligations incurred in connection with asset sales permitted by this Agreement.
- (j) Contingent liabilities granted in favor of title insurers in the ordinary course of business.

7.6 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property any Borrower now or later owns, except:

- (a) Liens and security interests in favor of the Bank.
- (b) Liens for taxes not yet delinquent.
- (c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.
- (d) Additional purchase money security interests in assets acquired after the date of this Agreement, if the total principal amount of debts secured by such liens does not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000) at any one time for all of the Borrowers.
- (e) Liens securing first mortgage bonds permitted under the preceding paragraph
- (f) Landlord's, carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like liens arising in the ordinary course of business which are not overdue for a period of more than thirty (30) days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the Borrowers.
- (g) Pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any lien imposed by ERISA.
- (h) Deposits to secure the performance of bids, trade contracts and leases, statutory obligations, surety bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business.
- (i) Easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrowers.
- (j) Liens securing judgments for the payment of money not constituting an event of default hereunder or securing appeal or other surety bonds related to such judgments.
- (k) Liens arising solely by virtue of any statutory or common law provisions relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution.

7.7 Maintenance of Assets.

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- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part of any Borrower's business or any Borrower's assets except in the ordinary course of such Borrower's business and except for such dispositions as may be necessary in connection with remedial actions taken by the Borrowers to remedy certain Plans, as disclosed to the Bank prior to the date of this Agreement.
- (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
- (c) Not to enter into any sale and leaseback agreement covering any of their fixed assets.
- (d) To maintain and preserve all rights, privileges, and franchises the Borrowers now have, except to the extent the failure to do so could not be reasonably expected to have a material adverse effect on the Borrowers' business condition (financial or otherwise) or ability to repay this credit.
- (e) To make any repairs, renewals, or replacements to keep the Borrowers' properties in good working condition (ordinary wear and tear excluded).

7.8 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:

- (a) Existing extensions of credit disclosed to the Bank in writing.
- (b) Extensions of credit to the Borrowers' current subsidiaries.
- (c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.

7.9 Additional Negative Covenants. Not to, without the Bank's written consent:

- (a) Enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company.
- (b) Acquire or purchase a business or its assets for a consideration for a consideration, including assumption of direct or contingent debt, in excess of Ten Million Dollars (\$10,000,000) in the aggregate in each fiscal year. Before making any such acquisition, the Borrowers must obtain the prior, effective written consent or approval of the board of directors or equivalent governing body of the business being acquired.
- (c) Engage in any business activities substantially different from each Borrower's present business.
- (d) Liquidate or dissolve any Borrower's business.
- (e) Voluntarily suspend any Borrower's business for more than seven (7) days in any thirty (365) day period.

7.10 Notices to Bank. To promptly notify the Bank in writing of:

- (a) Any lawsuit over Five Million and 00/100 Dollars (\$5,000,000.00) against any Borrower (or any guarantor).
  - (b) Any substantial dispute between any governmental authority and any Borrower (or any guarantor).
  - (c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.
  - (d) Any material adverse change in any Borrower's (or any guarantor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
  - (e) Any change in any Borrower's name, legal structure, place of business, or chief executive office if such Borrower has more than one place of business.
  - (f) Any actual contingent liabilities of any Borrower (or any guarantor), and any such contingent liabilities which are reasonably
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foreseeable, where such liabilities are in excess of Five Million and 00/100 Dollars (\$5,000,000.00) in the aggregate.

7.11 General Business Insurance. To maintain insurance as is usual for the business each Borrower is in.

7.12 Compliance with Laws. To comply with the laws (including any fictitious or trade name statute), regulations, and orders of any government body with authority over any Borrower's business, except to the extent that the failure to do so could not reasonably be expected to have a material adverse effect on the Borrowers' business condition (financial or otherwise) or ability to repay this credit. The Bank shall have no obligation to make any advance to any Borrower except in compliance with all applicable laws and regulations and the Borrowers shall fully cooperate with the Bank in complying with all such applicable laws and regulations.

7.13 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

7.14 ERISA Plans-Notices. With respect to a Plan subject to Title IV of ERISA, to give prompt written notice to the Bank of:

- (a) The occurrence of any reportable event under Section 4043(c) of ERISA for which the PBGC requires 30-day notice.
- (b) Any action by any Borrower or any ERISA Affiliate to terminate or withdraw from a Plan or the filing of any notice of intent to terminate under Section 4041 of ERISA.
- (c) The commencement of any proceeding with respect to a Plan under Section 4042 of ERISA.

7.15 Books and Records. To maintain adequate books and records.

7.16 Audits. To allow the Bank and its agents to inspect each Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrowers' properties, books or records are in the possession of a third party, the Borrowers authorize that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

7.17 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

7.18 Mandatory Prepayment; Early Termination. To immediately repay the entire principal balance of Facility No. 1 of this Agreement, together with interest, any fees (including any prepayment fees) and any other amounts due hereunder, and not obtain any further credit hereunder, upon the occurrence of the following event: Facility No. 1 of the Loan Agreement dated as of the date hereof between CWSC and the Bank, as now in effect or as hereafter renewed, amended, restated or superseded (the "Other Credit Facility"), terminates for any reason, including, without limitation, termination of the Other Credit Facility at the request of the CWSC, termination resulting from failure by the Bank to renew the Other Credit Facility, or termination as otherwise provided under the Other Credit Facility.

## 8. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following: declare the Borrowers in default, stop making any additional credit available to the Borrowers, and require the Borrowers to repay their entire debt immediately and without prior notice. If an event which, with notice or the passage of time, will constitute an event of default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under this Agreement. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to any Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

8.1 Failure to Pay. The Borrowers fail to make a payment of principal under this Agreement when due, or fail to make a payment of interest, any fee or other sum under this Agreement within five (5) days after the date when due.

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8.2 Other Bank Agreements. Any default occurs under any other agreement any Borrower (or any Obligor) or any of the Borrowers' related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor or any party pledging collateral to the Bank.

8.3 Cross-default. Any default occurs under any agreement in connection with any credit the Borrowers (or any Obligor) or any of the Borrowers' related entities or affiliates has obtained from anyone else or which any Borrower (or any Obligor) or any of the Borrowers' related entities or affiliates has guaranteed guaranteed in the amount of Five Million Dollars (\$5,000,000) or more in the aggregate, or any default occurs under that certain Loan Agreement dated as of the date hereof between the Bank and CWSC, as now in effect and as hereafter amended, restated, renewed, or superseded.

8.4 False Information. Any Borrower or any Obligor has given the Bank false or misleading information or representations.

8.5 Bankruptcy. Any Borrower, any Obligor, or any general partner of any Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or any Borrower, any Obligor, or any general partner of any Borrower or of any Obligor makes a general assignment for the benefit of creditors.

8.6 Receivers. A receiver or similar official is appointed for a substantial portion of any Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.

8.7 Lawsuits. Any lawsuit or lawsuits are filed on behalf of one or more trade creditors against any Borrower or any Obligor in an aggregate amount of Five Million and 00/100 Dollars (\$5,000,000.00) or more in excess of any insurance coverage.

8.8 Judgments. Any final judgments or arbitration awards are entered against any Borrower or any Obligor, or any Borrower or any Obligor enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Ten Million and 00/100 Dollars (\$10,000,000.00) or more in excess of any insurance coverage.

8.9 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in any Borrower's (or any Obligor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

8.10 Government Action. Any government authority takes action that the Bank believes materially adversely affects any Borrower's or any Obligor's financial condition or ability to repay.

8.11 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.

8.12 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of any Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject any Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of such Borrower:

(a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.

(b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by any Borrower or any ERISA Affiliate.

8.13 Other Breach Under Agreement. A default occurs under any other term or condition of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by any Borrower (or any other party named in the Covenants section) to comply with the financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrowers or the Bank. If the breach is capable of being remedied, the breach will not be considered an event of default under this Agreement for a period of thirty (30) days after the date on which the Bank gives written notice of the breach to the Borrowers.

8.14 Restrictive Covenant. Borrower 1 directly or indirectly agrees to any arrangement whereby the ability of any of its subsidiaries to pay dividends to Borrower 1 is restricted.

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## 9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

9.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

9.2 California Law. This Agreement is governed by California law.

9.3 Successors and Assigns. This Agreement is binding on the Borrowers' and the Bank's successors and assignees. The Borrowers agree that they may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange information about the Borrowers (including, without limitation, any information regarding any hazardous substances) with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrowers.

9.4 Dispute Resolution Provision. This paragraph, including the subparagraphs below, is referred to as the "Dispute Resolution Provision." This Dispute Resolution Provision is a material inducement for the parties entering into this agreement.

- (a) This Dispute Resolution Provision concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this Dispute Resolution Provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.
  - (b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U.S. Code) (the "Act"). The Act will apply even though this agreement provides that it is governed by the law of a specified state.
  - (c) Arbitration proceedings will be determined in accordance with the Act, the then-current rules and procedures for the arbitration of financial services disputes of the American Arbitration Association or any successor thereof ("AAA"), and the terms of this Dispute Resolution Provision. In the event of any inconsistency, the terms of this Dispute Resolution Provision shall control. If AAA is unwilling or unable to (i) serve as the provider of arbitration or (ii) enforce any provision of this arbitration clause, the Bank may designate another arbitration organization with similar procedures to serve as the provider of arbitration.
  - (d) The arbitration shall be administered by AAA and conducted, unless otherwise required by law, in any U.S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and have judgment entered and enforced.
  - (e) The arbitrator(s) will give effect to statutes of limitation in determining any Claim and may dismiss the arbitration on the basis that the Claim is barred. For purposes of the application of any statutes of limitation, the service on AAA under applicable AAA rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s), except as set forth at subparagraph (j) of this Dispute Resolution Provision. The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.
  - (f) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this agreement must consent to submission of the Claim to arbitration.
  - (g) To the extent any Claims are not arbitrated, to the extent permitted by law the Claims shall be resolved in court by a judge without a jury, except any Claims which are brought in California state court shall be determined by judicial reference as described below.
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- (h) Any Claim which is not arbitrated and which is brought in California state court will be resolved by a general reference to a referee (or a panel of referees) as provided in California Code of Civil Procedure Section 638. The referee (or presiding referee of the panel) shall be a retired Judge or Justice. The referee (or panel of referees) shall be selected by mutual written agreement of the parties. If the parties do not agree, the referee shall be selected by the Presiding Judge of the Court (or his or her representative) as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee shall determine all issues in accordance with existing California law and the California rules of evidence and civil procedure. The referee shall be empowered to enter equitable as well as legal relief, provide all temporary or provisional remedies, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a trial, including without limitation motions for summary judgment or summary adjudication. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644(a) and 645. The parties reserve the right to seek appellate review of any judgment or order, including but not limited to, orders pertaining to class certification, to the same extent permitted in a court of law.
- (i) This Dispute Resolution Provision does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies. The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration or judicial reference.
- (j) Any arbitration, judicial reference or trial by a judge of any Claim will take place on an individual basis without resort to any form of class or representative action (the "Class Action Waiver"). Regardless of anything else in this Dispute Resolution Provision, the validity and effect of the Class Action Waiver may be determined only by a court or referee and not by an arbitrator. The parties to this Agreement acknowledge that the Class Action Waiver is material and essential to the arbitration of any disputes between the parties and is nonseverable from the agreement to arbitrate Claims. If the Class Action Waiver is limited, voided or found unenforceable, then the parties' agreement to arbitrate shall be null and void with respect to such proceeding, subject to the right to appeal the limitation or invalidation of the Class Action Waiver. The Parties acknowledge and agree that under no circumstances will a class action be arbitrated.
- (k) By agreeing to binding arbitration or judicial reference, the parties irrevocably and voluntarily waive any right they may have to a trial by jury as permitted by law in respect of any Claim. Furthermore, without intending in any way to limit this Dispute Resolution Provision, to the extent any Claim is not arbitrated or submitted to judicial reference, the parties irrevocably and voluntarily waive any right they may have to a trial by jury to the extent permitted by law in respect of such Claim. This waiver of jury trial shall remain in effect even if the Class Action Waiver is limited, voided or found unenforceable. **WHETHER THE CLAIM IS DECIDED BY ARBITRATION, BY JUDICIAL REFERENCE, OR BY TRIAL BY A JUDGE, THE PARTIES AGREE AND UNDERSTAND THAT THE EFFECT OF THIS AGREEMENT IS THAT THEY ARE GIVING UP THE RIGHT TO TRIAL BY JURY TO THE EXTENT PERMITTED BY LAW.**

9.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

9.6 Attorneys' Fees. The Borrowers shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against the Borrowers under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in-house counsel.

9.7 Joint and Several Liability. This paragraph shall apply if two or more Borrowers sign this agreement:

- (a) Each Borrower agrees that it is jointly and severally liable to the Bank for the payment of all obligations arising under this Agreement, and that such liability is independent of the obligations of the other Borrower(s). Each obligation, promise, covenant, representation and warranty in this Agreement shall be deemed to have been
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made by, and be binding upon, each Borrower, unless this Agreement expressly provides otherwise. The Bank may bring an action against any Borrower, whether an action is brought against the other Borrower(s).

- (b) Each Borrower agrees that any release which may be given by the Bank to the other Borrower(s) or any guarantor will not release such Borrower from its obligations under this Agreement.
- (c) Each Borrower waives any right to assert against the Bank any defense, setoff, counterclaim, or claims which such Borrower may have against the other Borrower(s) or any other party liable to the Bank for the obligations of the Borrowers under this Agreement.
- (d) Each Borrower waives any defense by reason of any other Borrower's or any other person's defense, disability, or release from liability. The Bank can exercise its rights against each Borrower even if any other Borrower or any other person no longer is liable because of a statute of limitations or for other reasons.
- (e) Each Borrower agrees that it is solely responsible for keeping itself informed as to the financial condition of the other Borrower(s) and of all circumstances which bear upon the risk of nonpayment. Each Borrower waives any right it may have to require the Bank to disclose to such Borrower any information which the Bank may now or hereafter acquire concerning the financial condition of the other Borrower(s).
- (f) Each Borrower waives all rights to notices of default or nonperformance by any other Borrower under this Agreement. Each Borrower further waives all rights to notices of the existence or the creation of new indebtedness by any other Borrower and all rights to any other notices to any party liable on any of the credit extended under this Agreement.
- (g) The Borrowers represent and warrant to the Bank that each will derive benefit, directly and indirectly, from the collective administration and availability of credit under this Agreement. The Borrowers agree that the Bank will not be required to inquire as to the disposition by any Borrower of funds disbursed in accordance with the terms of this Agreement.
- (h) Until all obligations of the Borrowers to the Bank under this Agreement have been paid in full and any commitments of the Bank or facilities provided by the Bank under this Agreement have been terminated, each Borrower (a) waives any right of subrogation, reimbursement, indemnification and contribution (contractual, statutory or otherwise), including without limitation, any claim or right of subrogation under the Bankruptcy Code (Title 11, United States Code) or any successor statute, which such Borrower may now or hereafter have against any other Borrower with respect to the indebtedness incurred under this Agreement; (b) waives any right to enforce any remedy which the Bank now has or may hereafter have against any other Borrower, and waives any benefit of, and any right to participate in, any security now or hereafter held by the Bank.
- (i) Each Borrower waives any right to require the Bank to proceed against any other Borrower or any other person; proceed against or exhaust any security; or pursue any other remedy. Further, each Borrower consents to the taking of, or failure to take, any action which might in any manner or to any extent vary the risks of the Borrowers under this Agreement or which, but for this provision, might operate as a discharge of the Borrowers.

9.8 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:

- (a) represent the sum of the understandings and agreements between the Bank and the Borrowers concerning this credit;
- (b) replace any prior oral or written agreements between the Bank and the Borrowers concerning this credit; and
- (c) are intended by the Bank and the Borrowers as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a "promissory note" or a "note" executed by the Borrowers and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

9.9 Indemnification. The Borrowers will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document

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required hereunder, (b) any credit extended or committed by the Bank to the Borrowers hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document or any such credit; provided, however, that the Borrowers shall have no such obligation to indemnify or hold the Bank harmless to the extent such loss, liability, damages, judgments or costs result from the gross negligence or willful misconduct of the Bank, its officers, agents or employees. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrowers' obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrowers, due and payable immediately without demand.

9.10 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrowers, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as the Bank and the Borrowers may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

9.11 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

9.12 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

9.13 Prior Agreement Superseded. This Agreement supersedes the Loan Agreement entered into as of December 23, 2004, between the Bank and the Borrowers, and any credit outstanding thereunder shall be deemed to be outstanding under this Agreement.

9.14 Treatment of Certain Information: Confidentiality. The Bank agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its affiliates and to its and its affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies under this Agreement or any other loan document required under or executed in connection with this Agreement or any action or proceeding relating to this Agreement or any other loan document required under or executed in connection with this Agreement or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Paragraph 9.14, to (i) any assignee of or participant in, or any prospective assignee of or participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrowers and their obligations, (g) with the consent of the Borrowers or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this paragraph or (y) becomes available to the Bank or any of its affiliates on a nonconfidential basis from a source other than the Borrowers.

For purposes of this paragraph, "Information" means all information received from any Borrower or any of the Borrowers' subsidiaries relating to any Borrower or any of the Borrowers' subsidiaries or any of their respective businesses, other than any such information that is available to the Bank on a nonconfidential basis prior to disclosure by any Borrower or any subsidiary of any Borrower. Any person required to maintain the confidentiality of Information as provided in this paragraph shall be considered to have complied with its obligation to do so if such person has exercised the same degree of care to maintain the confidentiality of such Information as such person would accord to its own confidential information.

The Bank acknowledges that (a) the Information may include material non-public information concerning any Borrower or a subsidiary of any Borrower as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable law, including United States federal and state securities laws.

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Borrower:  
California Water Service Group

Bank:  
Bank of America, N.A.

By: /s/  
Martin Kropelnicki, Vice President, Chief  
Financial Officer and Treasurer

By: /s/  
John C. Plecque, Senior Vice President

Borrower:  
CWS Utility Services

By: /s/  
Martin Kropelnicki, Vice President, Chief  
Financial Officer and Treasurer

Borrower:  
New Mexico Water Service Company

By: /s/  
Martin Kropelnicki, Vice President, Chief  
Financial Officer and Treasurer

Borrower:  
Washington Water Service Company

By: /s/  
Martin Kropelnicki, Vice President, Chief  
Financial Officer and Treasurer

Borrower:  
Hawaii Water Service Company, Inc.

By: /s/  
Martin Kropelnicki, Vice President, Chief  
Financial Officer and Treasurer

Address where notices to the Borrowers are to be sent:

1720 North First Street  
San Jose, CA 95112  
101 S. Marengo Avenue, 5th Floor  
Pasadena, CA 91101-2428

Address where notices to the Bank are to be sent:

Pasadena — Attn: Notice Desk  
CA9-702-05-71

Affiliate Sharing Notice. Notice to Individual Borrowers, Guarantors and Pledgors (“Obligors”): From time to time Bank of America, N.A. (the “Bank”) may share information about the Obligor’s experience with Bank of America Corporation (or any successor company) and its subsidiaries and affiliated companies (the “Affiliates”). The Bank may also share with the Affiliates credit-related information contained in any applications, from credit reports and information it may obtain about the Obligor from outside sources. If the Obligor is an individual, the Obligor may instruct the Bank not to share this information with the Affiliates. The Obligor can make this election by (1) calling the Bank at 1.888.341.5000, (2) visiting the Bank online at [www.bankofamerica.com](http://www.bankofamerica.com), selecting “Privacy & Security,” and then selecting “Set Your Privacy Preferences,” or (3) contacting the Obligor’s client manager or local banking center. To help the Bank complete the Obligor’s request, the Obligor should include the Obligor’s name, address, phone number, account number(s) and social security number. If the Obligor makes this election, certain products or services may not be made available to the Obligor. This request will apply to information from applications, consumer reports and other outside sources only, and may take six to eight weeks to be fully effective. Through the normal course of doing business, including servicing the Obligor’s accounts and better serving the Obligor’s financial needs, the Bank will continue to share transaction and account experience information, as well as other general information among the Affiliates. The Bank may change this policy from time to time. Visit our website, [www.bankofamerica.com](http://www.bankofamerica.com), for the latest policy.

USA Patriot Act Notice. Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account or obtains a loan. The Bank will ask for each Borrower’s legal name, address, tax ID number or social security number and other identifying information. The Bank may also ask for additional information or documentation or take other actions reasonably necessary to verify the identity of the Borrowers, guarantors or other related persons.



## LOAN AGREEMENT

This Agreement dated as of May 30, 2007, is between Bank of America, N.A. (the "Bank") and California Water Service Company (the "Borrower").

1. FACILITY NO. 1: LINE OF CREDIT AMOUNT AND TERMS

1.1 Line of Credit Amount.

- (a) During the availability period described below, the Bank will provide a line of credit to the Borrower. The amount of the line of credit (the "Facility No. 1 Commitment") is Fifty-Five Million and 00/100 Dollars (\$55,000,000.00).
- (b) This is a revolving line of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.
- (c) The Borrower agrees not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and April 30, 2012, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").

1.3 Repayment Terms.

- (a) The Borrower will pay interest on May 31, 2007, and then on the last day of each month thereafter until payment in full of any principal outstanding under this facility.
- (b) The Borrower will repay in full any principal, interest or other charges outstanding under this facility no later than the Facility No. 1 Expiration Date. Any interest period for an optional interest rate (as described below) shall expire no later than the Facility No. 1 Expiration Date.

1.4 Interest Rate.

- (a) The interest rate is a rate per year equal to the Bank's Prime minus 1.5 percentage points.
  - (b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may
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price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.

1.5 Optional Interest Rates. Instead of the interest rate based on the rate stated in the paragraph entitled "Interest Rate" above, the Borrower may elect the optional interest rates listed below for this Facility No. 1 during interest periods agreed to by the Bank and the Borrower. The optional interest rates shall be subject to the terms and conditions described later in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion." The following optional interest rates are available:

- (a) The LIBOR Rate plus 0.25 percentage point.

1.6 Letters of Credit

- (a) During the availability period, at the request of the Borrower, the Bank will issue: standby letters of credit with a maximum maturity of three hundred sixty-five (365) days but not to extend more than three hundred sixty-five (365) days beyond the Facility No. 1 Expiration Date. The standby letters of credit may include a provision providing that the maturity date will be automatically extended each year for an additional year unless the Bank gives written notice to the contrary.
- (b) The amount of the letters of credit outstanding at any one time (including the drawn and unreimbursed amounts of the letters of credit) may not exceed Ten Million and 00/100 Dollars (\$10,000,000.00).
- (c) In calculating the principal amount outstanding under the Facility No. 1 Commitment, the calculation shall include the amount of any letters of credit outstanding, including amounts drawn on any letters of credit and not yet reimbursed.
- (d) The following letter of credit is outstanding from the Bank for the account of the Borrower:

<u>Letter of Credit Number</u>	<u>Amount</u>
3060134	\$500,000.00

As of the date of this Agreement, this letter of credit shall be deemed to be outstanding under this Agreement, and shall be subject to all the terms and conditions stated in this Agreement.

- (e) The Borrower agrees:
    - (i) Any sum drawn under a letter of credit may, at the option of the Bank, be added to the principal amount outstanding under this Agreement. The amount will bear interest and be due as described elsewhere in this Agreement.
    - (ii) If there is a default under this Agreement, to immediately deposit cash collateral with the Bank as required under Section B.2 (Deposit Events.) of each Bank form Application and Agreement for Standby Letter of Credit signed by the Borrower.
    - (iii) The issuance of any letter of credit and any amendment to a letter of credit is subject to the Bank's written approval and must be in form and content satisfactory to the Bank and in favor of a beneficiary acceptable to the Bank.
    - (iv) To sign the Bank's form Application and Agreement for Commercial Letter of Credit or Application and Agreement for Standby Letter of Credit, as applicable.
    - (v) To pay any issuance and/or other fees that the Bank notifies the Borrower will be charged for issuing and processing letters of credit for the Borrower.
    - (vi) To allow the Bank to automatically charge its checking account for applicable fees, discounts, and other charges.
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## 2. OPTIONAL INTEREST RATES

2.1 Optional Rates. Each optional interest rate is a rate per year. Interest will be paid on May 31, 2007, and then on the last day of each month thereafter until payment in full of any principal outstanding under this Agreement. No Portion will be converted to a different interest rate during the applicable interest period. Upon the occurrence of an event of default under this Agreement, the Bank may terminate the availability of optional interest rates for interest periods commencing after the default occurs. At the end of each interest period, the interest rate will revert to the rate stated in the paragraph(s) entitled "Interest Rate" above, unless the Borrower has designated another optional interest rate for the Portion.

2.2 LIBOR Rate. The election of LIBOR Rates shall be subject to the following terms and requirements:

- (a) The interest period during which the LIBOR Rate will be in effect will be one or two weeks, one month, two months, three months, four months, five months, six months, seven months, eight months, nine months, ten months, eleven months or twelve months. The first day of the interest period must be a day other than a Saturday or a Sunday on which banks are open for business in New York and London and dealing in offshore dollars (a "LIBOR Banking Day"). The last day of the interest period and the actual number of days during the interest period will be determined by the Bank using the practices of the London inter-bank market.
- (b) Each LIBOR Rate Portion will be for an amount not less than One Hundred Thousand and 00/100 Dollars (\$100,000.00).
- (c) The "LIBOR Rate" means the interest rate determined by the following formula. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{(1.00 - \text{Reserve Percentage})}$$

Where,

- (i) "London Inter-Bank Offered Rate" means for any applicable interest period, the rate per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as selected by the Bank from time to time) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period for U.S. Dollar deposits (for delivery on the first day of such interest period) with a term equivalent to such interest period. If such rate is not available at such time for any reason then the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which banks in London are open for business and dealing in offshore dollars.
  - (ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.
- (d) The Borrower shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon Pacific time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.
  - (e) The Bank will have no obligation to accept an election for a LIBOR Rate Portion if any of the following described events has occurred and is continuing:
    - (i) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate Portion are not available in the London inter-bank market; or
    - (ii) The LIBOR Rate does not accurately reflect the cost of a LIBOR Rate Portion.
  - (f) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described
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below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.

- (g) The prepayment fee shall be equal to the amount (if any) by which
  - (iii) the additional interest which would have been payable on the amount prepaid had it not been paid until the last day of the interest period, using the Initial Money Market Funds Rate, exceeds
  - (iv) the interest rate which would have been recoverable by the Bank by reinvesting the amount prepaid for the period starting on the date on which it was prepaid and ending on the last day of the interest period, using the Subsequent Money Market Funds Rate.

The following definitions will apply to the calculation of the prepayment fee:

"Money Market" means one or more wholesale rate markets available to the Bank, including the LIBOR, Eurodollar, and SWAP rate markets as applicable and available, or such other appropriate Money Market as determined by the Bank in its sole discretion.

"Initial Money Market Funds Rate" means the fixed interest rate per annum, determined solely by the Bank on the date that the Borrower requests the LIBOR Rate Portion, as the rate at which the Bank would be able to borrow funds in the Money Market in the amount of the LIBOR Rate Portion and with an interest period equal to the interest period of the LIBOR Rate Portion.

"Subsequent Money Market Funds Rate" means the fixed interest rate per annum, determined solely by the Bank on the date of the prepayment, as the rate at which the Bank would be able to reinvest funds in the Money Market in the prepaid amount of the LIBOR Rate Portion for a period of time approximating the period starting on the date of the prepayment and ending on the last day of the original interest period of the LIBOR Rate Portion.

The Bank may adjust the Initial Money Market Funds Rate and the Subsequent Money Market Funds Rate to reflect the compounding, accrual basis, or other costs of the LIBOR Rate Portion. The rates shall include adjustments for reserve requirements, federal deposit insurance, and any other similar adjustment which the Bank deems appropriate. Each of the rates is the Bank's estimate only, and the Bank is under no obligation to actually purchase or match funds for any transaction or reinvest any prepayment. The rates are not fixed by or related in any way to any rate the Bank quotes or pays for deposits accepted through its branch system. The rates will be based on information from either the Telerate or Reuters information services, The Wall Street Journal, or other information sources the Bank deems appropriate.

### 3. FEES AND EXPENSES

#### 3.1 Fees.

- (a) Periodic Commitment Fee. The Borrower agrees to pay a periodic commitment fee in the amount of Twelve Thousand Dollars (\$12,000).

This fee is due on the date of the Agreement, and on May 31<sup>st</sup> of 2008 and May 31<sup>st</sup> of each year thereafter until the expiration of the availability period.

- (b) Late Fee. To the extent permitted by law, the Borrower agrees to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank's rights with respect to the default.

3.2 Expenses. The Borrower agrees to immediately repay the Bank for expenses that include, but are not limited to, reasonable filing, recording and search fees, appraisal fees, title report fees, and documentation fees, in each case promptly following the presentation of an invoice for the expenses.

3.3 Reimbursement Costs. The Borrower agrees to reimburse the Bank for all reasonable expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys' fees, including any allocated costs of the Bank's in-house counsel to the extent permitted by applicable law.

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4. DISBURSEMENTS, PAYMENTS AND COSTS

4.1 Disbursements and Payments.

- (a) Each payment by the Borrower will be made in U.S. Dollars and immediately available funds by direct debit to a deposit account as specified below or, for payments not required to be made by direct debit, by mail to the address shown on the Borrower's statement or at one of the Bank's banking centers in the United States.
- (b) Each disbursement by the Bank and each payment by the Borrower will be evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrower to sign one or more promissory notes.

4.2 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone or telefax instructions for advances or repayments or for the designation of optional interest rates and telefax requests for the issuance of letters of credit given, or purported to be given, by any one of the individuals authorized to sign loan agreements on behalf of the Borrower, or any other individual designated by any one of such authorized signers.
- (b) Advances will be deposited in and repayments will be withdrawn from account number 14872-00230 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.
- (c) The Borrower will indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrower to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

4.3 Direct Debit (Pre-Billing).

- (a) The Borrower agrees that the Bank will debit deposit account number 14872-00230 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower (the "Designated Account") on the date each payment of principal and interest and any fees from the Borrower becomes due (the "Due Date").
- (b) Prior to each Due Date, the Bank will mail to the Borrower a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrower. The calculations in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.
- (c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:
  - (i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrower will not be in default by reason of any such discrepancy.
  - (ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

Regardless of any such discrepancy, interest will continue to accrue based on the actual amount of principal outstanding without compounding. The Bank will not pay the Borrower interest on any overpayment.

- (d) The Borrower will maintain sufficient funds in the Designated Account to cover each debit. If there are insufficient funds in the Designated Account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.
  - (e) The Borrower may terminate this direct debit arrangement at any time by sending written notice to the Bank at the address specified at the end of this Agreement. If the Borrower terminates this arrangement, then the principal amount outstanding under this Agreement will at the option of the Bank bear interest at a rate per annum which is 0.5 percentage point higher than the rate of interest otherwise provided under this Agreement.
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4.4 **Banking Days.** Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

4.5 **Interest Calculation.** Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

4.6 **Default Rate.** Upon the occurrence of any default or after maturity or after judgement has been rendered on any obligation under this Agreement, all amounts outstanding under this Agreement, including any interest, fees, or costs which are not paid when due, will at the option of the Bank bear interest at a rate which is 2.0 percentage points higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default. The Bank will notify the Borrower of its decision to exercise its option to impose the default rate, and the Bank's notice will set forth the date on which the default rate became or will become effective.

## 5. CONDITIONS

Before the Bank is required to extend any credit to the Borrower under this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

5.1 **Authorizations.** If the Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by the Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

5.2 **Governing Documents.** If required by the Bank, a copy of the Borrower's organizational documents.

5.3 **Guaranties.** Guaranty signed by California Water Service Group ("CWSG").

5.4 **Payment of Fees.** Payment of all fees and other amounts due and owing to the Bank, including without limitation payment of all accrued and unpaid expenses incurred by the Bank as required by the paragraph entitled "Reimbursement Costs."

5.5 **Good Standing.** Certificates of good standing for the Borrower from its state of formation and from any other state in which the Borrower is required to qualify to conduct its business.

5.6 **Insurance.** Evidence of insurance coverage, as required in the "Covenants" section of this Agreement.

## 6. REPRESENTATIONS AND WARRANTIES

When the Borrower signs this Agreement, and until the Bank is repaid in full, the Borrower makes the following representations and warranties. Each request for an extension of credit constitutes a renewal of these representations and warranties as of the date of the request:

6.1 **Formation.** If the Borrower is anything other than a natural person, it is duly formed and existing under the laws of the state or other jurisdiction where organized.

6.2 **Authorization.** This Agreement, and any instrument or agreement required hereunder, are within the Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.

6.3 **Enforceable Agreement.** This Agreement is a legal, valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.

6.4 **Good Standing.** In each state in which the Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes except where (other than in respect of its jurisdiction of

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organization) its failure to be so could not reasonably be expected to have a material adverse effect on its business condition (financial or otherwise) or ability to repay this credit.

6.5 No Conflicts. This Agreement does not conflict with any law, material agreement, or material obligation by which the Borrower is bound.

6.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of CWSG's (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of CWSG.

6.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against the Borrower which, if lost, would impair the Borrower's financial condition or ability to repay the loan, except as have been disclosed in writing to the Bank.

6.8 Permits, Franchises. The Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.

6.9 Other Obligations. The Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank.

6.10 Tax Matters. The Borrower has no knowledge of any pending assessments or adjustments of its income tax for any year and all material taxes due have been paid, except as have been disclosed in writing to the Bank or as are being contested in good faith and by appropriate proceedings diligently conducted and as to which adequate reserves are being maintained on the books of the Borrower in accordance with GAAP.

6.11 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.

6.12 Insurance. The Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

6.13 ERISA Plans.

- (a) Each Plan (other than a multiemployer plan) is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law except where failure to be in compliance could not reasonably be expected to have a material adverse effect on the Borrower's business condition (financial or otherwise) or ability to repay this credit. Each Plan has received a favorable determination letter from the IRS and to the best knowledge of the Borrower, nothing has occurred which would cause the loss of such qualification. The Borrower has fulfilled its obligations, if any, under the minimum funding standards of ERISA and the Code with respect to each Plan, and has not incurred any liability with respect to any Plan under Title IV of ERISA where such liability could reasonably be expected to have a material adverse effect on the Borrower's business condition (financial or otherwise) or ability to repay this credit.
  - (b) There are no claims, lawsuits or actions (including by any governmental authority), and there has been no prohibited transaction or violation of the fiduciary responsibility rules, with respect to any Plan which has resulted or could reasonably be expected to result in a material adverse effect.
  - (c) With respect to any Plan subject to Title IV of ERISA:
    - (i) No reportable event has occurred under Section 4043(c) of ERISA for which the PBGC requires 30-day notice.
    - (ii) No action by the Borrower or any ERISA Affiliate to terminate or withdraw from any Plan has been taken and no notice of intent to terminate a Plan has been filed under Section 4041 of ERISA.
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- (iii) No termination proceeding has been commenced with respect to a Plan under Section 4042 of ERISA, and no event has occurred or condition exists which might constitute grounds for the commencement of such a proceeding.
- (d) The following terms have the meanings indicated for purposes of this Agreement:
  - (i) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
  - (ii) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.
  - (iii) "ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code.
  - (iv) "PBGC" means the Pension Benefit Guaranty Corporation.
  - (v) "Plan" means a pension, profit-sharing, or stock bonus plan intended to qualify under Section 401(a) of the Code, maintained or contributed to by the Borrower or any ERISA Affiliate, including any multiemployer plan within the meaning of Section 4001(a)(3) of ERISA.

## 7. COVENANTS

The Borrower agrees, so long as credit is available under this Agreement and until the Bank is repaid in full:

7.1 Use of Proceeds. To use the proceeds of Facility No. 1 only for working capital, permitted acquisitions, general corporate purposes and to bridge capital expenditures.

7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time. The Bank reserves the right, upon written notice to the Borrower, to require the Borrower to deliver financial information and statements to the Bank more frequently than otherwise provided below, and to use such additional information and statements to measure any applicable financial covenants in this Agreement.

- (a) Within ten (10) days after the date of filing with the Securities and Exchange Commission ("SEC"), the annual financial statements of CWSG, certified and dated by an authorized financial officer. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidated, consolidating, and unconsolidated basis.
- (b) Within ten (10) days after the date of filing with the SEC, quarterly financial statements of CWSG (other than the last fiscal quarter of any fiscal year), certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on a consolidated, consolidating, and unconsolidated basis.
- (c) Within the same time periods that the annual and quarterly financial statements are required under subparagraphs (a) and (b) immediately above, a compliance certificate of CWSG signed by an authorized financial officer, and setting forth (i) the information and computations (on a consolidated basis and in sufficient detail) of the Debt to Capitalization Ratio (as defined in Paragraph 8.15 below) and the Interest Coverage Ratio (as defined in Paragraph 8.16 below) to establish compliance with those financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action CWSG is taking and proposes to take with respect thereto.
- (d) Copies of the Form 10-K Annual Report and Form 10-Q Quarterly Report for CWSG within ten (10) days after the date of filing with the SEC, provided that all such reports shall be deemed delivered when delivered to the SEC and posted to EDGAR.
- (e) The annual financial projections of CWSG covering the forthcoming fiscal year and specifying the assumptions used in creating the projections. The projections shall be provided to the Bank by April 30th of each year.

7.3 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. This does not prohibit:

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- (a) Acquiring goods, supplies, or merchandise on normal trade credit.
- (b) Endorsing negotiable instruments received in the usual course of business.
- (c) Obtaining surety bonds in the usual course of business.
- (d) Liabilities, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.
- (e) Additional debts and lease obligations for the acquisition of fixed assets, to the extent permitted under Paragraph 7.4(d) of this Agreement.
- (f) Additional debts assumed in connection with acquisitions permitted under Paragraph 7.7(b) of this Agreement.
- (g) Additional obligations of the Borrower consisting of first mortgage bonds or unsecured senior notes substantially similar in amount and structure to those certain first mortgage bonds and unsecured senior notes that are outstanding as of the date of this Agreement.
- (h) Operating leases entered into the ordinary course of business.
- (i) Contingent obligations in respect of customary indemnification and purchase price adjustment obligations incurred in connection with asset sales permitted by this Agreement.
- (j) Contingent liabilities granted in favor of title insurers in the ordinary course of business.

7.4 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property the Borrower now or later owns, except:

- (a) Liens and security interests in favor of the Bank.
  - (b) Liens for taxes not yet delinquent.
  - (c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.
  - (d) Additional purchase money security interests in assets acquired after the date of this Agreement, if the total principal amount of debts secured by such liens does not exceed Five Million Dollars (\$5,000,000) at any one time.
  - (e) Liens securing first mortgage bonds permitted under the preceding paragraph.
  - (f) Landlord's, carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like liens arising in the ordinary course of business which are not overdue for a period of more than thirty (30) days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the Borrower.
  - (g) Pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any lien imposed by ERISA.
  - (h) Deposits to secure the performance of bids, trade contracts and leases, statutory obligations, surety bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business.
  - (i) Easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower.
  - (j) Liens securing judgments for the payment of money not constituting an event of default hereunder or securing appeal or other surety bonds related to such judgments.
  - (k) Liens arising solely by virtue of any statutory or common law provisions relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution.
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7.5 Maintenance of Assets.

- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part of the Borrower's business or the Borrower's assets except in the ordinary course of the Borrower's business and except for such dispositions as may be necessary in connection with remedial actions taken by the Borrower to remedy certain Plans, as disclosed to the Bank prior to the date of this Agreement.
- (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
- (c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.
- (d) To maintain and preserve all rights, privileges, and franchises the Borrower now has, except to the extent the failure to do so could not be reasonably expected to have a material adverse effect on the Borrower's business condition (financial or otherwise) or ability to repay this credit.
- (e) To make any repairs, renewals, or replacements to keep the Borrower's properties in good working condition (ordinary wear and tear excluded).
- (f) Additional debts assumed in connection with acquisitions permitted under Paragraph 7.7(b) of this Agreement.

7.6 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:

- (a) Existing extensions of credit disclosed to the Bank in writing.
- (b) Extensions of credit to the Borrower's current subsidiaries.
- (c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.

7.7 Additional Negative Covenants. Not to, without the Bank's written consent:

- (a) Enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company.
- (b) Acquire or purchase a business or its assets for a consideration, including assumption of direct or contingent debt, in excess of Ten Million Dollars (\$10,000,000) in the aggregate in each fiscal year. Before making any such acquisition, the Borrower must obtain the prior, effective written consent or approval of the board of directors or equivalent governing body of the business being acquired.
- (c) Engage in any business activities substantially different from the Borrower's present business.
- (d) Liquidate or dissolve the Borrower's business.
- (e) Voluntarily suspend the Borrower's business for more than seven (7) days in any thirty (365) day period.

7.8 Notices to Bank. To promptly notify the Bank in writing of:

- (a) Any lawsuit over Five Million and 00/100 Dollars (\$5,000,000.00) against the Borrower (or any guarantor).
  - (b) Any substantial dispute between any governmental authority and the Borrower (or any guarantor).
  - (c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.
  - (d) Any material adverse change in the Borrower's (or any guarantor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
  - (e) Any change in the Borrower's name, legal structure, place of business, or chief executive office if the Borrower has more
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than one place of business.

- (f) Any actual contingent liabilities of the Borrower (or any guarantor), and any such contingent liabilities which are reasonably foreseeable, where such liabilities are in excess of Five Million and 00/100 Dollars (\$5,000,000.00) in the aggregate.

7.9 General Business Insurance. To maintain insurance as is usual for the business it is in.

7.10 Compliance with Laws. To comply with the laws (including any fictitious or trade name statute), regulations, and orders of any government body with authority over the Borrower's business, except to the extent that the failure to do so could not reasonably be expected to have a material adverse effect on the Borrower's business condition (financial or otherwise) or ability to repay this credit. The Bank shall have no obligation to make any advance to the Borrower except in compliance with all applicable laws and regulations and the Borrower shall fully cooperate with the Bank in complying with all such applicable laws and regulations.

7.11 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

7.12 ERISA Plans-Notices. With respect to a Plan subject to Title IV of ERISA, to give prompt written notice to the Bank of:

- (a) The occurrence of any reportable event under Section 4043(c) of ERISA for which the PBGC requires 30-day notice.
- (b) Any action by the Borrower or any ERISA Affiliate to terminate or withdraw from a Plan or the filing of any notice of intent to terminate under Section 4041 of ERISA.
- (c) The commencement of any proceeding with respect to a Plan under Section 4042 of ERISA.

7.13 Books and Records. To maintain adequate books and records.

7.14 Audits. To allow the Bank and its agents to inspect the Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

7.15 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

## 8. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately and without prior notice. If an event which, with notice or the passage of time, will constitute an event of default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under this Agreement. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to the Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

8.1 Failure to Pay. The Borrower fails to make a payment of principal under this Agreement when due, or fails to make a payment of interest, any fee or other sum under this Agreement within five (5) days after the date when due.

8.2 Other Bank Agreements. Any default occurs under any other agreement the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor or any party pledging collateral to the Bank.

8.3 Cross-default. Any default occurs under any agreement in connection with any credit the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has obtained from anyone else or which the Borrower (or any

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Obligor) or any of the Borrower's related entities or affiliates has guaranteed in the amount of Five Million Dollars (\$5,000,000) or more in the aggregate.

8.4 False Information. The Borrower or any Obligor has given the Bank false or misleading information or representations.

8.5 Bankruptcy. The Borrower, any Obligor, or any general partner of the Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or the Borrower, any Obligor, or any general partner of the Borrower or of any Obligor makes a general assignment for the benefit of creditors.

8.6 Receivers. A receiver or similar official is appointed for a substantial portion of the Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.

8.7 Lawsuits. Any lawsuit or lawsuits are filed on behalf of one or more trade creditors against the Borrower or any Obligor in an aggregate amount of Five Million and 00/100 Dollars (\$5,000,000.00) or more in excess of any insurance coverage.

8.8 Judgments. Any final judgments or arbitration awards are entered against the Borrower or any Obligor, or the Borrower or any Obligor enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Ten Million and 00/100 Dollars (\$10,000,000.00) or more in excess of any insurance coverage.

8.9 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in the Borrower's (or any Obligor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

8.10 Government Action. Any government authority takes action that the Bank believes materially adversely affects the Borrower's or any Obligor's financial condition or ability to repay.

8.11 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.

8.12 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of the Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject the Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of the Borrower:

(a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.

(b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by the Borrower or any ERISA Affiliate.

8.13 Other Breach Under Agreement. A default occurs under any other term or condition of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by the Borrower (or any other party named in the Covenants section) to comply with the financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrower or the Bank. If the breach is capable of being remedied, the breach will not be considered an event of default under this Agreement for a period of thirty (30) days after the date on which the Bank gives written notice of the breach to the Borrower.

8.14 Restrictive Covenant. CWSG directly or indirectly agrees to any arrangement whereby the ability of any of its subsidiaries to pay dividends to CWSG is restricted.

8.15 Debt to Capitalization Ratio. CWSG fails to maintain on a consolidated basis a Debt to Capitalization Ratio not exceeding 0.667:1.0.

"Debt to Capitalization Ratio" means the ratio of Funded Debt to the sum of Net Worth plus Funded Debt.

"Funded Debt" of any person shall mean (i) all Indebtedness of such person for borrowed money or which have been incurred in connection with the acquisition of assets in each case having a final maturity of one or more than one year from the date of origin thereof (or which is renewable or extendible at the option of the obligor for a

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period or periods more than one year from the date of origin), including all payments in respect thereof that are required to be made within one year from the date of any determination of Funded Debt, whether or not the obligation to make such payments shall constitute a current liability of the obligor under GAAP, (ii) all Capitalized Rentals of such person, and (iii) all guaranties by such person of Funded Debt of others.

“Indebtedness” of a person means all obligations of such person which in accordance with GAAP shall be classified upon a balance sheet of such person as liabilities of such person, and in any event shall include all (i) obligations of such person for borrowed money or which has been incurred in connection with the acquisition of property or assets, (ii) obligations secured by any lien upon property or assets owned by such person, even though such person has not assumed or become liable for the payment of such obligations, (iii) obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such person, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of property, (iv) Capitalized Rentals and (v) guaranties of obligations of others of the character referred to in this definition. Notwithstanding the foregoing, the term ‘Indebtedness’ as it relates to CWSG shall not include obligations of CWSG with respect to advances for construction from third parties.

“Capitalized Rentals” of any person shall mean as of the date of any determination thereof the amount at which the aggregate Rentals due and to become due under all capitalized leases under which such person is a lessee would be reflected as a liability on a consolidated balance sheet of such person.

“Rentals” shall mean and include as of the date of any determination thereof all fixed payments (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the property) payable by a person, as lessee or sublessee under a lease of real or personal property, but shall be exclusive of any amounts required to be paid by such person (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Fixed rents under any so-called “percentage leases” shall be computed solely on the basis of the minimum rents, if any, required to be paid by the lessee regardless of sales volume or gross revenues.

“Net Worth” means the value of consolidated total assets (including leaseholds and leasehold improvements and reserves against assets) less total liabilities, including but not limited to accrued and deferred income taxes.

8.16 Interest Coverage Ratio. CWSG fails to maintain on a consolidated basis an Interest Coverage Ratio of at least 2.5:1.0.

“Interest Coverage Ratio” means, as of any date of determination, the ratio of (a) EBITDA for the period of the four prior fiscal quarters ending on such date to (b) Interest Charges for such period.

“EBITDA” means, for any period, for CWSG on a consolidated basis, an amount equal to net income for such period plus (a) the following to the extent deducted in calculating such net income: (i) Interest Charges for such period, (ii) the provision for Federal, state, local and foreign income taxes payable by CWSG for such period, (iii) depreciation and amortization expense for such period, (iv) other extraordinary losses of CWSG reducing such net income which do not represent a cash item in such period or any future period and minus (b) the following to the extent included in calculating such net income: (i) Federal, state, local and foreign income tax credits of CWSG for such period and (ii) all extraordinary non-cash gains and non-cash items increasing net income for such period.

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“Interest Charges” means, for any period, for CWSG on a consolidated basis, the sum of (a) all interest, premium payments, debt discount, fees, charges and related expenses of CWSG in connection with borrowed money to the extent treated as interest in accordance with GAAP, and (b) the portion of rent expense of CWSG with respect to such period under capital leases that is treated as interest in accordance with GAAP.

This ratio will be calculated at the end of each reporting period for which the Bank requires financial statements using the results of the twelve-month period ending with that reporting period.

9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

9.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

9.2 California Law. This Agreement is governed by California law.

9.3 Successors and Assigns. This Agreement is binding on the Borrower’s and the Bank’s successors and assignees. The Borrower agrees that it may not assign this Agreement without the Bank’s prior consent. The Bank may sell participations in or assign this loan, and may exchange information about the Borrower (including, without limitation, any information regarding any hazardous substances) with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrower.

9.4 Dispute Resolution Provision. This paragraph, including the subparagraphs below, is referred to as the “Dispute Resolution Provision.” This Dispute Resolution Provision is a material inducement for the parties entering into this agreement.

- (a) This Dispute Resolution Provision concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a “Claim”). For the purposes of this Dispute Resolution Provision only, the term “parties” shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.
  - (b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U.S. Code) (the “Act”). The Act will apply even though this agreement provides that it is governed by the law of a specified state.
  - (c) Arbitration proceedings will be determined in accordance with the Act, the then-current rules and procedures for the arbitration of financial services disputes of the American Arbitration Association or any successor thereof (“AAA”), and the terms of this Dispute Resolution Provision. In the event of any inconsistency, the terms of this Dispute Resolution Provision shall control. If AAA is unwilling or unable to (i) serve as the provider of arbitration or (ii) enforce any provision of this arbitration clause, the Bank may designate another arbitration organization with similar procedures to serve as the provider of arbitration.
  - (d) The arbitration shall be administered by AAA and conducted, unless otherwise required by law, in any U.S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and have judgment entered and enforced.
  - (e) The arbitrator(s) will give effect to statutes of limitation in determining any Claim and may dismiss the arbitration on the basis that the Claim is barred. For purposes of the application of any statutes of limitation, the service on AAA under
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applicable AAA rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s), except as set forth at subparagraph (j) of this Dispute Resolution Provision. The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.

- (f) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this agreement must consent to submission of the Claim to arbitration.
- (g) To the extent any Claims are not arbitrated, to the extent permitted by law the Claims shall be resolved in court by a judge without a jury, except any Claims which are brought in California state court shall be determined by judicial reference as described below.
- (h) Any Claim which is not arbitrated and which is brought in California state court will be resolved by a general reference to a referee (or a panel of referees) as provided in California Code of Civil Procedure Section 638. The referee (or presiding referee of the panel) shall be a retired Judge or Justice. The referee (or panel of referees) shall be selected by mutual written agreement of the parties. If the parties do not agree, the referee shall be selected by the Presiding Judge of the Court (or his or her representative) as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee shall determine all issues in accordance with existing California law and the California rules of evidence and civil procedure. The referee shall be empowered to enter equitable as well as legal relief, provide all temporary or provisional remedies, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a trial, including without limitation motions for summary judgment or summary adjudication. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644(a) and 645. The parties reserve the right to seek appellate review of any judgment or order, including but not limited to, orders pertaining to class certification, to the same extent permitted in a court of law.
- (i) This Dispute Resolution Provision does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies. The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration or judicial reference.
- (j) Any arbitration, judicial reference or trial by a judge of any Claim will take place on an individual basis without resort to any form of class or representative action (the "Class Action Waiver"). Regardless of anything else in this Dispute Resolution Provision, the validity and effect of the Class Action Waiver may be determined only by a court or referee and not by an arbitrator. The parties to this Agreement acknowledge that the Class Action Waiver is material and essential to the arbitration of any disputes between the parties and is nonseverable from the agreement to arbitrate Claims. If the Class Action Waiver is limited, voided or found unenforceable, then the parties' agreement to arbitrate shall be null and void with respect to such proceeding, subject to the right to appeal the limitation or invalidation of the Class Action Waiver. The Parties acknowledge and agree that under no circumstances will a class action be arbitrated.
- (k) By agreeing to binding arbitration or judicial reference, the parties irrevocably and voluntarily waive any right they may have to a trial by jury as permitted by law in respect of any Claim. Furthermore, without intending in any way to limit this Dispute Resolution Provision, to the extent any Claim is not arbitrated or submitted to judicial reference, the parties irrevocably and voluntarily waive any right they may have to a trial by jury to the extent permitted by law in respect of such Claim. This waiver of jury trial shall remain in effect even if the Class Action Waiver is limited, voided or found unenforceable. **WHETHER THE CLAIM IS DECIDED BY ARBITRATION, BY JUDICIAL REFERENCE, OR BY TRIAL BY A JUDGE, THE PARTIES AGREE AND UNDERSTAND THAT THE EFFECT OF THIS AGREEMENT IS THAT THEY ARE GIVING UP THE RIGHT TO TRIAL BY JURY TO THE EXTENT PERMITTED BY LAW.**

9.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

9.6 Attorneys' Fees. The Borrower shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout"

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or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against the Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in-house counsel.

9.7 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:

- (a) represent the sum of the understandings and agreements between the Bank and the Borrower concerning this credit;
- (b) replace any prior oral or written agreements between the Bank and the Borrower concerning this credit; and
- (c) are intended by the Bank and the Borrower as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a "promissory note" or a "note" executed by the Borrower and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

9.8 Indemnification. The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrower hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document or any such credit; provided, however, that the Borrower shall have no such obligation to indemnify or hold the Bank harmless to the extent such loss, liability, damages, judgments or costs result from the gross negligence or willful misconduct of the Bank, its officers, agents or employees. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrower's obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrower, due and payable immediately without demand.

9.9 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrower, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as the Bank and the Borrower may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

9.10 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

9.11 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

9.12 Prior Agreement Superseded. This Agreement supersedes the Loan Agreement entered into as of November 2, 2004, between the Bank and the Borrower, and any credit outstanding thereunder shall be deemed to be outstanding under this Agreement.

9.13 Treatment of Certain Information: Confidentiality. The Bank agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its affiliates and to its and its affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies under

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this Agreement or any other loan document required under or executed in connection with this Agreement or any action or proceeding relating to this Agreement or any other loan document required under or executed in connection with this Agreement or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Paragraph 9.13, to (i) any assignee of or participant in, or any prospective assignee of or participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this paragraph or (y) becomes available to the Bank or any of its affiliates on a nonconfidential basis from a source other than the Borrower.

For purposes of this paragraph, "Information" means all information received from the Borrower or any of the Borrower's subsidiaries relating to the Borrower or any of the Borrower's subsidiaries or any of their respective businesses, other than any such information that is available to the Bank on a nonconfidential basis prior to disclosure by the Borrower or any subsidiary of the Borrower. Any person required to maintain the confidentiality of Information as provided in this paragraph shall be considered to have complied with its obligation to do so if such person has exercised the same degree of care to maintain the confidentiality of such Information as such person would accord to its own confidential information.

The Bank acknowledges that (a) the Information may include material non-public information concerning the Borrower or a subsidiary of the Borrower as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable law, including United States federal and state securities laws.

Borrower:	Bank:
California Water Service Company	Bank of America, N.A.
By: <u>/s/</u>	By: <u>/s/</u>
Martin Kropelnicki, Vice President, Chief Financial Officer and Treasurer	John C. Plecque, Senior Vice President

Address where notices to the Borrower are to be sent:

1720 North First Street  
San Jose, CA 95112

Address where notices to the Bank are to be sent:

Pasadena — Attn: Notice Desk  
CA9-702-05-71  
101 S. Marengo Avenue, 5th Floor  
Pasadena, CA 91101-2428

Affiliate Sharing Notice. Notice to Individual Borrowers, Guarantors and Pledgors ("Obligors"): From time to time Bank of America, N.A. (the "Bank") may share information about the Obligor's experience with Bank of America Corporation (or any successor company) and its subsidiaries and affiliated companies (the "Affiliates"). The Bank may also share with the Affiliates credit-related information contained in any applications, from credit reports and information it may obtain about the Obligor from outside sources. If the Obligor is an individual, the Obligor may instruct the Bank not to share this information with the Affiliates. The Obligor can make this election by (1) calling the Bank at 1.888.341.5000, (2) visiting the Bank online at [www.bankofamerica.com](http://www.bankofamerica.com), selecting "Privacy & Security," and then selecting "Set Your Privacy Preferences," or (3) contacting the Obligor's client manager or local banking center. To help the Bank complete the Obligor's request, the Obligor should include the Obligor's name, address, phone number, account number(s) and social security number. If the Obligor makes this election, certain products or services may not be made available to the Obligor. This request will apply to information from applications, consumer reports and other outside sources only, and may take six to eight weeks to be fully effective. Through the normal course of doing business, including servicing the Obligor's accounts and better serving the Obligor's financial needs, the Bank will continue to share transaction and account experience information, as well as other general information among the Affiliates. The Bank may change this policy from time to time. Visit our website, [www.bankofamerica.com](http://www.bankofamerica.com), for the latest policy.

USA Patriot Act Notice. Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account or obtains a loan. The Bank will ask for the Borrower's legal name, address, tax ID number or social security number and other identifying information. The Bank may also ask for additional information or documentation or take other actions reasonably necessary to verify the identity of the Borrower, guarantors or other related persons.

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Peter C. Nelson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2007, 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: August 7, 2007

By: /s/ Peter C. Nelson

Peter C. Nelson  
President and Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Martin A. Kropelnicki, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2007, 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: August 7, 2007

By: /s/ Martin A. Kropelnicki  
Martin A. Kropelnicki  
Chief Financial Officer and Treasurer

CERTIFICATION  
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 certifies that this Quarterly Report on Form 10-Q for the period ended June 30, 2007, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of California Water Service Group.

Date: August 7, 2007

By: /s/ Peter C. Nelson  
PETER C. NELSON  
Chief Executive Officer  
California Water Service Group

Date: August 7, 2007

By: /s/ Martin A. Kropelnicki  
MARTIN A. KROPELNICKI  
Chief Financial Officer  
California Water Service Group