Dalton Peter J
Form 4
September 24, 2009

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Dalton Peter J

(Last) (First) (Middle)

461 SOUTH MILPITAS BLVD.

(Street)

MILPITAS, CA 95035

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Globalstar, Inc. [GSAT]

3. Date of Earliest Transaction (Month/Day/Year)
09/23/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Executive Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amour Numbe Shares
Stock Option (Right to Buy)	$ 0.83	09/23/2009		A		3,000,000		(1)	09/23/2019	Common Stock	3,000
Stock Option (Right to Buy)	$ 0.9							(2)	08/04/2019	Common Stock	200,
Stock Option (Right to Buy)	$ 0.38							(3)	11/14/2018	Common Stock	200,
Stock Option (Right to Buy)	$ 2.67							03/17/2006	03/16/2011	Common Stock	120,

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Dalton Peter J 461 SOUTH MILPITAS BLVD. MILPITAS, CA 95035	X		Chief Executive Officer	

Signatures

/s/ Bridget C. Hoffman, attorney-in-fact for Peter J. Dalton	09/24/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Fifty percent of the options were exercisable on the grant date. The other 50% will become exercisable after the closing price of the Issuer's common stock is at or above $3.00 per share for 20 consecutive trading days.

(2) 100,000 options were exercisable on the grant date. Remaining 100,000 options will become exercisable on a pro-rated basis each month from September 1, 2009 through November 1, 2010.

(3) All options are exercisable, but 100,000 are subject to forfeiture based on continued service and other conditions.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. f the instruments.

Long-term debt fair values were estimated using the published quoted market price, if available, or the discounted cash flow analysis, based on the current rates available using a risk-free rate (a U.S. Treasury securities yield curve) plus a risk premium of 1.19%.

Advances for construction fair values were estimated using broker quotes from companies that frequently purchase these investments.

	September 30, 2014				
		Fair Value			
	Cost	Level 1	Level 2	Level 3	Total
Long -term debt, including current maturities	$ 429,444		$ 526,733		$ 526,733
Advances for construction	182,172		74,389		74,389
Total	$ 611,616	$	$ 601,122	$	$ 601,122

	December 31, 2013				
		Fair Value			
	Cost	Level 1	Level 2	Level 3	Total
Long -term debt, including current maturities	$ 434,050	$	$ 511,146	$	$ 511,146
Advances for construction	183,393		73,389		73,389
Total	$ 617,443		$ 584,535	$	$ 584,535

Table of Contents

Note 12. Condensed Consolidating Financial Statements

On April 17, 2009, Cal Water issued $100 million aggregate principal amount of 5.875% First Mortgage Bonds due 2019, and on November 17, 2010, Cal Water issued $100 million aggregate principal amount of 5.500% First Mortgage Bonds due 2040, all of which are fully and unconditionally guaranteed by the Company. As a result of these guarantee arrangements, we are required to present the following condensed consolidating financial information.

The following tables present the condensed consolidating balance sheets as of September 30, 2014 and December 31, 2013, the condensed consolidating statements of income for the three months ended September 30, 2014 and 2013, the condensed consolidating statements of income for the nine months ended September 30, 2014 and 2013 and the condensed consolidating statements of cash flows for the nine months ended September, 2014 and 2013 of (i) California Water Service Group, the guarantor of the first mortgage bonds and the parent company; (ii) California Water Service Company, the issuer of the first mortgage bonds and a 100% owned consolidated subsidiary of California Water Service Group; and (iii) the other 100% owned non-guarantor consolidated subsidiaries of California Water Service Group.

Table of Contents

CALIFORNIA WATER SERVICE GROUP

CONDENSED CONSOLIDATING BALANCE SHEET

As of September 30, 2014

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	$ 1,318	$ 2,120,177	$ 192,129	$ (7,197)	$ 2,306,427
Less accumulated depreciation and amortization	(320)	(705,851)	(41,266)	1,695	(745,742)
Net utility plant	998	1,414,326	150,863	(5,502)	1,560,685
Current assets:					
Cash and cash equivalents	1,316	26,218	1,951		29,485
Receivables and unbilled revenue	(756)	118,265	9,976	(94)	127,391
Receivables from affiliates	22,242	977	95	(23,314)	
Other current assets	107	19,078	1,217		20,402
Total current assets	22,909	164,538	13,239	(23,408)	177,278
Other assets:					
Regulatory assets		274,509	2,967		277,476
Investments in affiliates	633,705			(633,705)	
Long-term affiliate notes receivable	25,516			(25,516)	
Other assets	1,037	48,729	4,287	(412)	53,641
Total other assets	660,258	323,238	7,254	(659,633)	331,117
	$ 684,165	$ 1,902,102	$ 171,356	$ (688,543)	$ 2,069,080
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders equity	$ 622,282	$ 564,803	$ 74,304	$ (639,107)	$ 622,282
Affiliate long-term debt			25,516	(25,516)	
Long-term debt, less current maturities		421,909	916		422,825
Total capitalization	622,282	986,712	100,736	(664,623)	1,045,107
Current liabilities:					
Current maturities of long-term debt		6,164	455		6,619
Short-term borrowings	61,715				61,715
Payables to affiliates		1,813	21,501	(23,314)	
Accounts payable		68,659	3,208		71,867
Accrued expenses and other liabilities	168	71,269	3,818	(42)	75,213
Total current liabilities	61,883	147,905	28,982	(23,356)	215,414
Unamortized investment tax credits		2,106			2,106
Deferred income taxes, net		206,552	4,369	(564)	210,357
Pension and postretirement benefits other than pensions		153,085			153,085
Regulatory and other liabilities		82,757	8,956		91,713
Advances for construction		181,514	658		182,172
Contributions in aid of construction		141,471	27,655		169,126
	$ 684,165	$ 1,902,102	$ 171,356	$ (688,543)	$ 2,069,080

Explanation of Responses:

Table of Contents

CALIFORNIA WATER SERVICE GROUP

CONDENSED CONSOLIDATING BALANCE SHEET

As of December 31, 2013

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	$ 1,318	$ 2,034,935	$ 184,272	$ (7,197)	$ 2,213,328
Less accumulated depreciation and amortization	(164)	(661,780)	(37,168)	1,615	(697,497)
Net utility plant	1,154	1,373,155	147,104	(5,582)	1,515,831
Current assets:					
Cash and cash equivalents	5,280	20,790	1,436		27,506
Receivables and unbilled revenue	(756)	90,008	8,931	(94)	98,089
Receivables from affiliates	16,747	5,755		(22,502)	
Other current assets		13,011	884		13,895
Total current assets	21,271	129,564	11,251	(22,596)	139,490
Other assets:					
Regulatory assets		248,938	2,743		251,681
Investments in affiliates	565,347			(565,347)	
Long-term affiliate notes receivable	26,255			(26,255)	
Other assets	1,120	44,827	7,111	(205)	52,853
Total other assets	592,722	293,765	9,854	(591,807)	304,534
	$ 615,147	$ 1,796,484	$ 168,209	$ (619,985)	$ 1,959,855
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders equity	$ 598,756	$ 500,290	$ 70,548	$ (570,838)	$ 598,756
Affiliate long-term debt			26,255	(26,255)	
Long-term debt, less current maturities		424,854	1,288		426,142
Total capitalization	598,756	925,144	98,091	(597,093)	1,024,898
Current liabilities:					
Current maturities of long-term debt		6,137	1,771		7,908
Short-term borrowings	16,815	30,000			46,815
Payables to affiliates	48		22,454	(22,502)	
Accounts payable		51,764	3,323		55,087
Accrued expenses and other liabilities	107	55,346	1,321		56,774
Total current liabilities	16,970	143,247	28,869	(22,502)	166,584
Unamortized investment tax credits		2,106			2,106
Deferred income taxes, net	(579)	179,870	4,344	(390)	183,245
Pension and postretirement benefits other than pensions		145,451			145,451
Regulatory and other liabilities		77,627	8,828		86,455
Advances for construction		182,776	617		183,393
Contributions in aid of construction		140,263	27,460		167,723
	$ 615,147	$ 1,796,484	$ 168,209	$ (619,985)	$ 1,959,855

Explanation of Responses:

Table of Contents

CALIFORNIA WATER SERVICE GROUP

CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the three months ended September 30, 2014

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$	$ 180,768	$ 10,416	$	$ 191,184
Operating expenses:					
Operations:					
Water production costs		64,332	2,648		66,980
Administrative and general	34	21,282	2,449		23,765
Other		14,161	1,657	(126)	15,692
Maintenance		4,620	180		4,800
Depreciation and amortization	57	13,692	926	(27)	14,648
Income tax (benefit) expense	(79)	18,632	393	287	19,233
Taxes other than income taxes		4,409	823		5,232
Total operating expenses	12	141,128	9,076	134	150,350
Net operating (loss) income	(12)	39,640	1,340	(134)	40,834
Other Income and Expenses:					
Non-regulated revenue	448	4,027	446	(512)	4,409
Non-regulated expenses, net		(4,538)	(274)		(4,812)
Income tax (expense) on other income and expense	(182)	207	(132)	276	169
Net other income	266	(304)	40	(236)	(234)
Interest:					
Interest expense	103	7,030	473	(385)	7,221
Less: capitalized interest		(252)	(19)		(271)
Net interest expense	103	6,778	454	(385)	6,950
Equity earnings of subsidiaries	33,499			(33,499)	
Net income (loss)	$ 33,650	$ 32,558	$ 926	$ (33,484)	$ 33,650

17

Table of Contents

CALIFORNIA WATER SERVICE GROUP

CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the three months ended September 30, 2013

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$	$ 174,699	$ 9,705	$	$ 184,404
Operating expenses:					
Operations:					
Water production costs		67,981	2,633		70,614
Administrative and general		22,354	2,316		24,670
Other		15,883	1,900	(126)	17,657
Maintenance		4,382	193		4,575
Depreciation and amortization	14	13,714	805	(28)	14,505
Income tax (benefit) expense	(17)	10,721	107	354	11,165
Taxes other than income taxes		4,680	734		5,414
Total operating (income) expenses	(3)	139,715	8,688	200	148,600
Net operating income (loss)	3	34,984	1,017	(200)	35,804
Other Income and Expenses:					
Non-regulated revenue	572	3,385	475	(783)	3,649
Non-regulated expenses, net		(2,515)	(310)		(2,825)
Income tax (expense) on other income and expense	(232)	(355)	(85)	342	(330)
Net other income (expense)	340	515	80	(441)	494
Interest:					
Interest expense	30	7,608	707	(658)	7,687
Less: capitalized interest		(495)	(45)		(540)
Net interest expense	30	7,113	662	(658)	7,147
Equity earnings of subsidiaries	28,838			(28,838)	
Net income (loss)	$ 29,151	$ 28,386	$ 435	$ (28,821)	$ 29,151

18

Table of Contents

CALIFORNIA WATER SERVICE GROUP

CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the nine months ended September 30, 2014

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$	$ 434,857	$ 25,258	$	$ 460,115
Operating expenses:					
Operations:					
Water production costs		167,214	7,083		174,297
Administrative and general	67	65,144	7,491		72,702
Other		43,186	5,264	(378)	48,072
Maintenance		14,276	517		14,793
Depreciation and amortization	157	43,607	3,104	(80)	46,788
Income tax (benefit) expense	(184)	22,713	(686)	741	22,584
Taxes other than income taxes		13,552	2,049		15,601
Total operating expenses	40	369,692	24,822	283	394,837
Net operating (loss) income	(40)	65,165	436	(283)	65,278
Other Income and Expenses:					
Non-regulated revenue	1,365	11,264	1,193	(1,659)	12,163
Non-regulated expenses, net		(10,286)	(898)		(11,184)
Income tax (expense) on other income and expense	(556)	(399)	(144)	708	(391)
Net other income	809	579	151	(951)	588
Interest:					
Interest expense	228	20,974	1,452	(1,281)	21,373
Less: capitalized interest		(790)	(61)		(851)
Net interest expense	228	20,184	1,391	(1,281)	20,522
Equity earnings of subsidiaries	44,803			(44,803)	
Net income (loss)	$ 45,344	$ 45,560	$ (804)	$ (44,756)	$ 45,344

Table of Contents

CALIFORNIA WATER SERVICE GROUP

CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the nine months ended September 30, 2013

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$	$ 425,860	$ 24,543	$	$ 450,403
Operating expenses:					
Operations:					
Water production costs		164,524	7,432		171,956
Administrative and general		65,423	7,683		73,106
Other		45,490	5,220	(378)	50,332
Maintenance		12,376	520		12,896
Depreciation and amortization	42	41,168	2,499	(84)	43,625
Income tax (benefit) expense	(246)	19,807	(1,064)	1,070	19,567
Taxes other than income taxes		14,549	2,015		16,564
Total operating (income) expenses	(204)	363,337	24,305	608	388,046
Net operating income (loss)	204	62,523	238	(608)	62,357
Other Income and Expenses:					
Non-regulated revenue	1,739	9,572	1,415	(2,340)	10,386
Non-regulated expenses, net		(7,308)	(1,174)		(8,482)
Income tax (expense) on other income and expense	(708)	(923)	(169)	1,035	(765)
Net other income (expenses)	1,031	1,341	72	(1,305)	1,139
Interest:					
Interest expense	563	22,966	1,961	(1,963)	23,527
Less: capitalized interest		(1,279)	(340)		(1,619)
Net interest expense	563	21,687	1,621	(1,963)	21,908
Equity earnings of subsidiaries	40,916			(40,916)	
Net income (loss)	$ 41,588	$ 42,177	$ (1,311)	$ (40,866)	$ 41,588

Table of Contents

CALIFORNIA WATER SERVICE GROUP

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2014

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income (loss)	$ 45,344	$ 45,560	$ (804)	$ (44,756)	$ 45,344
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity earnings of subsidiaries	(44,803)			44,803	
Dividends received from affiliates	23,295			(23,295)	
Depreciation and amortization	157	45,059	3,345	(80)	48,481
Changes in value of life insurance contracts		(501)			(501)
Other changes in noncurrent assets and liabilities	2,160	11,539	(392)	33	13,340
Changes in operating assets and liabilities:	(68)	(7,969)	1,540		(6,497)
Net cash provided by operating activities	26,085	93,688	3,689	(23,295)	100,167
Investing activities:					
Utility plant expenditures		(81,505)	(4,753)		(86,258)
Investment in affiliates	(46,850)			46,850	
Changes in affiliate advances	(5,455)	4,778	(200)	877	
Proceeds from affiliates long-term debt	699			(699)	
Purchase of life insurance contracts		(3,207)			(3,207)
Changes in restricted cash		354			354
Net cash (used in) investing activities	(51,606)	(79,580)	(4,953)	47,028	(89,111)
Financing Activities:					
Short-term borrowings	64,900	35,000			99,900
Repayment of short-term borrowings	(20,000)	(65,000)			(85,000)
Investment from affiliates		42,000	4,850	(46,850)	
Changes in affiliate advances	(48)	1,814	(889)	(877)	
Repayment of affiliates long-term borrowings			(699)	699	
Repayment of long-term debt		(2,919)	(1,685)		(4,604)
Advances and contributions in aid for construction		8,239	541		8,780
Refunds of advances for construction		(4,809)	(49)		(4,858)
Dividends paid to non-affiliates	(23,295)				(23,295)
Dividends paid to affiliates		(23,005)	(290)	23,295	
Net cash (used in) provided by financing activities	21,557	(8,680)	1,779	(23,733)	(9,077)
Change in cash and cash equivalents	(3,964)	5,428	515		1,979
Cash and cash equivalents at beginning of period	5,280	20,790	1,436		27,506
Cash and cash equivalents at end of period	$ 1,316	$ 26,218	$ 1,951	$	$ 29,485

Table of Contents

CALIFORNIA WATER SERVICE GROUP

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2013

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income (loss)	$ 41,588	$ 42,177	$ (1,311)	$ (40,866)	$ 41,588
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity earnings of subsidiaries	(40,916)			40,916	
Dividends received from affiliates	21,981			(21,981)	
Depreciation and amortization	42	42,509	2,600	(84)	45,067
Change in value of life insurance contracts		(1,147)			(1,147)
Other changes in noncurrent assets and liabilities	1,164	12,415	(29)	(49)	13,501
Changes in operating assets and liabilities	390	4,220	(1,803)	83	2,890
Net cash provided by (used in) operating activities	24,249	100,174	(543)	(21,981)	101,899
Investing activities:					
Utility plant expenditures	(640)	(84,688)	(9,454)		(94,782)
Investment in affiliates	(35,000)			35,000	
Net changes in affiliate advances	(9,583)	(2,359)	1,141	10,801	
Repayment of affiliates long-term debt	913	7,797		(8,710)	
Purchase of life insurance		(3,204)			(3,204)
Changes in restricted cash and other changes, net		1,148			1,148
Net cash (used in) investing activities	(44,310)	(81,306)	(8,313)	37,091	(96,838)
Financing Activities:					
Short-term borrowings	15,315	20,000			35,315
Repayment of short-term borrowings	(68,275)	(45,000)			(113,275)
Proceeds from long-term debt			48		48
Repayment of long-term debt		(2,531)	(527)		(3,058)
Net changes in affiliate advances		(972)	11,773	(10,801)	
Repayment of affiliates long-term debt	(7,796)		(914)	8,710	
Advances and contributions in aid for construction		7,545	32		7,577
Refunds of advances for construction		(5,184)	(46)		(5,230)
Dividends paid to non-affiliates	(21,981)				(21,981)
Dividends paid to affiliates		(19,790)	(2,191)	21,981	
Issuance of common stock, net	105,600				105,600
Investment from affiliates		35,000		(35,000)	
Net cash provided by (used in) financing activities	22,863	(10,932)	8,175	(15,110)	4,996
Change in cash and cash equivalents	2,802	7,936	(681)		10,057
	1,470	34,609	2,711		38,790

Cash and cash equivalents at beginning of period										
Cash and cash equivalents at end of period	$	4,272	$	42,545	$	2,030	$		$	48,847

Table of Contents

Item 2

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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;
- changes in the capital markets and access to sufficient capital on satisfactory terms;
- new legislation;

- changes in California Department of Public Health water quality standards;
- changes in environmental compliance and water quality requirements;
- changes in accounting valuations and estimates;
- changes in accounting treatment for regulated companies, including adoption of International Financial Reporting Standards, if required;
- electric power interruptions;
- increases in suppliers prices and the availability of supplies including water and power;
- fluctuations in interest rates;
- litigation that may result in damages or costs not recoverable from third parties;
- acquisitions and the ability to successfully integrate acquired companies;
- the ability to successfully implement business plans;
- 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;

Explanation of Responses:

Table of Contents

- federal health care law changes could result in increases to Company health care costs and additional income tax expenses in future years;
- changes in federal and state income tax regulations and treatment of such by regulatory commissions;
- implementation of new information technology systems;
- changes in operations that result in an impairment to acquisition goodwill;
- 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;
- our general economic conditions, including changes in customer growth patterns and the Company s ability to collect billed revenue from customers;
- changes in customer water use patterns and the effects of conservation;
- the impact of weather and climate on water sales and operating results;
- the ability to satisfy requirements related to the Sarbanes-Oxley and Dodd-Frank Acts, and other regulations on internal controls;
- the unknown impact of contagious diseases, such as Ebola, avian flu, H1N1 flu and severe accute respiratory syndrome (SARs), on the Company s operations;
- the impact of cyber security breaches on the Company s financial, human resources, and operational information systems; 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 of America (GAAP) and as directed by the Commissions to which our operations are subject. The process of preparing financial statements in accordance with GAAP requires the use of estimates on the part of management. The estimates used by management are based on historic experience and an understanding of current facts and circumstances. 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, financial condition, and cash flows of the business. These policies and their key characteristics are discussed in detail in the 2013 Form 10-K. They include:

- revenue recognition and the water revenue adjustment mechanism;
- modified cost balancing accounts;
- expense balancing and memorandum accounts;
- regulatory utility accounting;
- income taxes;
- pension benefits;
- workers compensation and other claims;
- goodwill accounting and evaluation for impairment; and

- contingencies.

For the nine-month period ended September 30, 2014, there were no changes in the methodology for computing critical accounting estimates, no additional accounting estimates met the standards for critical accounting policies, and there were no material changes to the important assumptions underlying the critical accounting estimates.

Table of Contents

RESULTS OF THIRD QUARTER 2014 OPERATIONS COMPARED TO

THIRD QUARTER 2013 OPERATIONS

Amounts in thousands except share data

Overview

Net income for the three month period ended September 30, 2014 was $33.7 million or $0.70 per diluted common share compared to net income of $29.2 million or $0.61 per diluted common share for the three month period ended September 30, 2013. Net income increased $4.5 million during the third quarter of 2014 compared to the third quarter of 2013. The increase was mostly due to net rate increases from the Cal Water 2012 General Rate Case (GRC) decision and a smaller effect from reductions to administrative and general, other operations, net interest and property tax expenses. The Cal Water GRC decision was authorized during the third quarter of 2014 and as a result, the Company realized an increase in net income of $8.5 million during the three months ended September 30, 2014. This increase relates to rate increases and regulatory mechanisms associated with the 2012 GRC. The increase to net income was partially offset by increases in income tax, maintenance, and depreciation and amortization expenses. The increase to income taxes during the third quarter of 2014 was due mostly to an increase in net operating income and a decrease in tax benefits during the third quarter of 2014 compared to the prior year. Net other (loss) income, was a loss of $0.2 million during the third quarter of 2014 compared to income of $0.5 million during the three month period ended September 30, 2013. The decrease of $0.7 million was mostly due to an increase in corporate development costs during the third quarter of 2014 compared to the prior year.

Operating Revenue

Operating revenue increased $6.8 million or 3.7% to $191.2 million in the third quarter of 2014. As a result of the authorized rate design in the 2012 GRC, Cal Water s revenue shifted from quantity based WRAM revenue to fixed rate charge revenue. Fixed rate charge revenue is primarily service fee revenue but also includes unmetered flat revenue. The factors that impacted the operating revenue for the third quarter of 2014 as compared to 2013 are as follows:

Net change in service, flat, and other revenue	$	22,167
Health care balancing account		1,949
Pension balancing account		(18)
Conservation balancing account		(636)
Deferral of revenue		(1,650)
Net effect of WRAM		(15,032)
Net operating revenue increase	$	6,780

The net change in to service, flat and other revenue in the above table was mainly driven by an increase in service charge revenue related to the 2012 GRC as there was a shift from quantity to service charge revenue. Service, flat and other revenue of $21.6 million was recorded as interim rates revenue for the first 8 months of 2014. The remaining revenue increase relates to rate increases in 2014 compared to 2013.

The health care balancing account in the above table refers to the difference between actual expenses and adopted rate recovery. The increase of $1.9 million is due to higher actual health care expenses as compared to adopted rate recovery in 2014.

The conservation balancing account in the above table refers to the difference between actual expenses and adopted rate recovery. The decrease of $0.6 million is due to lower actual conservation expenses as compared to adopted rate recovery in 2014.

The deferral of revenue in the table above occurs whenever a district net receivable balance is estimated to be collected more than 24 months after the respective reporting period in which it was recognized. The deferral in 2014 has decreased because of an increase in actual consumption relative to adopted consumption, which has caused a decrease in the net receivables that are expected to be collected more than 24 months after the respective reporting period in which it was recognized.

The net effect of WRAM in the above table was the revenue changes recognized by the WRAM and MCBA. The WRAM is impacted by changes in consumption patterns from our historical trends as well as an increase in conservation efforts. The MCBA, which records the differences in production costs from the adopted costs, is recorded as an adjustment to revenue as it represents pass through costs which are billed to customers. The MCBA is impacted by changes in total production quantities, the production mix of the source of water, the price paid for purchased water and power, and the amount of pump taxes paid. WRAM revenue decreased $23.0 million during the three months ended September 30, 2014 compared to the three months ended September 30, 2013 due to a decrease in the sales forecast in the 2012 GRC decision. This was partially offset by an increase in the MCBA adjustment of $8.0 million during the three months ended September 30, 2014 compared to the three months ended September 30, 2013 as actual MCBA costs relative to adopted costs has increased.

Table of Contents

Total Operating Expenses

Total operating expenses were $150.4 million for the third quarter of 2014, versus $148.6 million for the same period in 2013, a 1% increase.

Water production expense consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 45% of total operating expenses in the third quarter of 2014. Water production expenses decreased 5% compared to the same period last year mostly due to a decrease in customer usage.

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

	Three Months Ended September 30	
	2014	**2013**
Well production	50%	49%
Purchased	47%	47%
Surface	3%	4%
Total	100%	100%

The components of water production costs are shown in the table below:

	Three Months Ended September 30		
	2014	**2013**	**Change**
Purchased water	$ 51,466	$ 55,586	$ (4,120)
Purchased power	11,872	11,599	273
Pump taxes	3,642	3,429	213
Total	$ 66,980	$ 70,614	$ (3,634)

Purchased water costs decreased due to a decrease in customer demand. Total water production, measured in acre feet, decreased by 12% during the third quarter of 2014 as compared to the third quarter of 2013.

Administrative and general expense and other operations expense decreased 7% to $39.5 million during the third quarter of 2014 as compared to the third quarter of 2013 mostly due to a decrease in pension benefit expenses and conservation plan program expenses which was partially offset by an increase in employee wages and outside service expenses. Wage increases became effective January 1, 2014. At September 30, 2014, there were 1,133 employees and at September 30, 2013, there were 1,121 employees.

Maintenance expense increased by 5% to $4.8 million in the third quarter of 2014 compared to $4.6 million in the third quarter of 2013, due to an increase in groundwater treatment facilities, transmission and distribution mains, pumping equipment, and well repair costs.

Depreciation and amortization expense increased $0.1 million, or 1%, due to capital additions.

Federal and state income tax expense for operating expenses increased $8.1 million during the third quarter of 2014 as compared to the third quarter of 2013 mostly due to an increase in net operating income and a decrease in tax benefits. During the third quarter of 2014 there was a $2.3 million tax benefit compared to a tax benefit of $4.1 million during the third quarter of 2013. Federal and state income taxes charged to other income and expenses decreased $0.5 million in the third quarter of 2014 mostly due to an increase in corporate development costs.

Property and other taxes decreased $0.2 million during the third quarter of 2014 as compared to the third quarter of 2013 due to a reduction in our assessed property values.

Table of Contents

Other Income and Expenses

Net other (loss) income decreased $0.7 million in the third quarter of 2014 mostly due to an increase in corporate development costs and an unrealized loss on our benefit plan insurance investments during the third quarter of 2014 compared to the same period last year. The unrealized loss on our benefit plan insurance investments was $0.2 million during the third quarter of 2014 compared to an unrealized gain of $0.6 million during the third quarter of 2013.

Interest Expense

Net interest expense, net of interest capitalized, decreased $0.2 million, or 3%, to $7.0 million for the third quarter of 2014 compared to the same period last year. The decrease was mostly due to $40.0 million of first mortgage bonds maturing during the fourth quarter of 2013 which was partially offset by an increase in short term borrowings and a decrease in capitalized interest charged to construction projects.

Table of Contents

RESULTS OF THE NINE MONTHS ENDED SEPTEMBER 30, 2014 OPERATIONS COMPARED TO

THE NINE MONTHS ENDED SEPTEMBER 30, 2013 OPERATIONS

Amounts in thousands except share data

Overview

Net income for the nine month period ended September 30, 2014 was $45.3 million or $0.95 per diluted common share compared to net income of $41.6 million or $0.90 per diluted common share for the nine month period ended September 30, 2013. Net income increased $3.7 million during the first nine months of 2014 compared to the first nine months of 2014. The increase was mostly due to net rate increases and regulatory mechanisms authorized in the Cal Water GRC decision and a smaller effect from reductions to net interest expenses and property tax expenses. The increase to net income was partially offset by increases in income tax, depreciation and amortization, and maintenance expenses. The increase to income taxes was mostly due to an increase in net operating income. Net other income, net of income taxes, for the nine month period ended September 30, 2014 was $0.6 million compared to $1.1 million for the nine month period ended September 30, 2013. The decrease of $0.5 million was mostly due to an increase in corporate development costs during the nine month period ended September 30, 2014 compared to the prior year.

Operating Revenue

Operating revenue increased $9.7 million or 2% to $460.1 million during the first nine months of 2014. As a result of the authorized rate design in the 2012 GRC, Cal Water s revenue shifted from quantity based WRAM revenue to fixed rate charge revenue. Fixed rate charge revenue is primarily service fee revenue but also includes unmetered flat revenue.The factors that impacted the operating revenue during the first nine months of 2014 as compared to the first nine months of 2013 are as follows:

Net change in service, flat and other revenue	$	22,221
Health care balancing account		1,949
Conservation balancing account		(839)
Deferral of revenue		(1,583)
Pension balancing account		(3,392)
Net effect of WRAM		(8,644)
Net operating revenue increase	$	9,712

The net change in service, flat and other revenue in the above table was mainly driven by an increase in service charge revenue related to the 2012 GRC as there was a shift from quantity to service charge revenue.

The health care balancing account in the above table refers to the difference between actual expenses and adopted rate recovery. The increase of $1.9 million is due to higher actual health care expenses as compared to adopted rate recovery in 2014.

The conservation balancing account in the above table refers to the difference between actual expenses and adopted rate recovery. The decrease of $0.8 million is due to lower actual conservation expenses as compared to adopted rate recovery in 2014.

The pension balancing account in the above table refers to the difference between actual expenses and adopted rate recovery. The decrease of $3.4 million is due to lower actual pension expenses as compared to adopted rate recovery in 2014.

The deferral of revenue in the table above occurs whenever a district net receivable balance is estimated to be collected more than 24 months after the respective reporting period in which it was recognized. The deferrals are reversed when district net receivable balances are estimated to be collected within 24-months. The deferral in 2014 has decreased because of an increase in actual consumption relative to adopted consumption, which has caused a decrease in the net receivables that are expected to be collected more than 24 months after the respective reporting period in which it was recognized.

The net effect of WRAM in the above table was the revenue changes recognized by the WRAM and MCBA. The WRAM is impacted by changes in consumption patterns from our historical trends as well as an increase in conservation efforts. The MCBA, which records the differences in production costs from the adopted costs, is recorded as an adjustment to revenue as it represents pass through costs which are billed to customers. The MCBA is impacted by changes in total production quantities, the production mix of the source of water, the price paid for purchased water and power, and the amount of pump taxes paid. WRAM revenue decreased $19.5 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 due to a decrease in the sales forecast in the 2012 GRC decision. This was partially offset by an increase in the MCBA adjustment of $10.9 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 as actual MCBA costs relative to adopted costs has increased.

Table of Contents

Total Operating Expenses

Total operating expenses were $394.8 million for the first nine months of 2014, compared to $388.0 million for the same period in 2013, a 2% increase.

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 during the first nine months 2014. Water production expenses increased 1% compared to the same period last year mostly due to pump tax rate increases and well production increases in areas where pump tax is assessed.

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

	Nine months Ended September 30	
	2014	**2013**
Well production	50%	47%
Purchased	47%	48%
Surface	3%	5%
Total	100%	100%

The components of water production costs are shown in the table below:

	Nine months Ended September 30					
		2014		**2013**		**Change**
Purchased water	$	137,894	$	138,315	$	(421)
Purchased power		26,578		25,228		1,350
Pump taxes		9,825		8,413		1,412
Total	$	174,297	$	171,956	$	2,341

Purchased water costs decreased due to a decrease in customer demand. Total water production, measured in acre feet, decreased by 6% during the first nine months of 2014 as compared to the first nine months of 2013.

Administrative and general expense and other operations expense decreased $2.7 million to $120.8 million during the first nine months of 2014 as compared to the first nine months of 2013 mostly due to decreases in employee pension benefit costs and a decrease in conservation plan program expenses due to the success of prior years conservation efforts. The expense decrease was partially offset by increases to employee wages, health care costs, outside service fees, and business insurance costs. Wage increases became effective January 1, 2014.

Maintenance expense increased by 15% to $14.8 million during the first nine months of 2014 compared to $12.9 million during the first nine months of 2013, due to an increase in groundwater treatment facilities, transmission and distribution mains, pumping equipment, and well repair costs.

Depreciation and amortization expense increased $3.2 million, or 7%, mostly due to 2013 capital additions.

Federal and state income tax expense for operating expenses increased $3.0 million during the first nine months of 2014 compared to the same period last year because of an increase in net operating income. During the first nine months of 2014 and 2013, tax benefits were $4.8 million. Federal and state income taxes charged to other income and expenses decreased $0.4 million during the first nine months of 2014 mostly due to an increase in corporate development costs and a reduction in unrealized gains on our benefit plan insurance investments. The current estimated effective tax rate is 34% for fiscal year 2014.

Property and other taxes decreased $1.0 million during the first nine months of 2014 as compared to the first nine months of 2013 due to a reduction in our assessed property values.

Other Income and Expenses

Net other income, net of income taxes, decreased $0.6 million during the first nine months of 2014 compared to the same period of 2013 the decrease was due to an increase in corporate development costs and lower unrealized gains on our benefit plan insurance investments.

Table of Contents

Interest Expense

Net interest expense, decreased $1.4 million, or 6%, to $20.5 million for the nine month period ended September 30, 2014 compared to the same period in 2013. The decrease was mostly due to $40.0 million of first mortgage bonds maturing during the fourth quarter of 2013 which was partially offset by an increase in short term borrowings and a decrease in capitalized interest charged to construction projects.

REGULATORY MATTERS

Rates and Regulation

The state regulatory commissions have plenary powers setting rates and operating standards. As such, state commission decisions significantly impact the Company s revenues, earnings, and cash flows. The amounts discussed herein 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 general rate case interim rate relief are temporary rate changes, which have specific time frames for recovery.

GRCs, escalation 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 regulated operating districts every three years. In a GRC proceeding, the CPUC not only considers the utility s rate setting requests, but may also consider other issues that affect the utility s rates and operations. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates. In accordance with the CPUC s rate case plan for Class A water utilities, Cal Water filed a GRC on July 5, 2012 that is applicable to all of its regulated California districts. The Commission issued a Decision 14-08-011 resolving the rate case in the third quarter of 2014 with rates effective back to January 1, 2014. Under the CPUC s rate case plan, Cal Water will file its next GRC application in July 2015.

Between GRC filings Cal Water may file escalation rate increases, which allows Cal Water to recover cost increases, primarily from inflation and incremental investment, during the second and third years of the rate case cycle. However, escalation rate increases are subject to a weather-normalized earnings test on a district-by-district basis. Under the earnings test, the CPUC may reduce the escalation rate increase if, in the most recent 12-month period, this earnings test reflects earnings in excess of what was authorized for that district.

In addition, California water utilities are entitled to make offset filings. Offset filings may be filed to adjust revenues for construction projects authorized in GRCs when the plant is placed in service (referred to as ratebase offsets), 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 the next GRC is approved.

In pursuit of the CPUC s water conservation goals, the CPUC decoupled Cal Water s revenue requirement from customer consumption levels in 2008 by authorizing WRAM/MCBA for each ratemaking area. The WRAM/MCBA ensures that Cal Water recovers all of the quantity revenues authorized by the CPUC regardless of customer consumption. This removes the Company s historical disincentive against the promotion of lower water usage among customers. Through an annual advice letter filing, Cal Water recovers any uncollected quantity revenue amounts authorized, or refunds over-collected quantity revenues, via surcharges and surcredits. The advice letters are filed between February and April of each year and address the net WRAM/MCBA balances collected for the previous calendar year. Most WRAM/MCBA balances have been revenue under-collections that are amortized through surcharges for a period of 12 or 18 months. The WRAM/MCBA amounts are cumulative, so if they are not amortized in a given calendar year, the balance will be carried forward and included with the following year balance.

2014 Regulatory Activity

California GRC filing

On July 5, 2012, Cal Water filed a GRC application seeking rate increases in all regulated operating districts in California beginning January 1, 2014. The GRC application requested an increase of $92.7 million or 19.4% in rates for 2014, $17.2 million or 3.0% in rates for 2015 and $16.9 million or 2.9% in rates for 2016. In addition to the CPUC s Office of Ratepayer Advocates

Table of Contents

(ORA), (formerly the Division of Ratepayer Advocates), several other entities representing various districts intervened in the case to become active parties. In early 2013, six parties submitted testimony in response to Cal Water s application, and Cal Water submitted rebuttal testimony. Settlement negotiations began in May 2013, and on October 30, 2013, Cal Water entered into a settlement agreement with all parties who were active in the case at the time.

On December 19, 2013, the assigned Administrative Law Judge granted Cal Water s request to continue applying existing rates on and after January 1, 2014 as interim rates and allowed Cal Water to track the difference between interim rates and the new rates eventually adopted in the proceeding in a memorandum account. On August 14, 2014, the Commission issued Decision 14-08-011 adopting the proposed settlement and authorizing Cal Water to recover the balance in the memorandum account for interim rates The GRC decision authorizes Cal Water to increase rates by $45.3 million or 9.2% in 2014, $10.1 million or 1.9% in 2015 and $10.0 million or 1.8% in 2016. Also, the decision authorizes Cal Water to invest $449.4 million in districts throughout California over the three-year period from January 1, 2013 through December 31, 2015 in order to provide a safe and reliable water supply to its customers. Included in the $449.4 million in water system infrastructure improvements is $128.7 million that could be recovered through the Commission s advice letter procedure upon completion of qualified projects which we estimate would provide an additional $19.0 million in revenue. The new final rates went into effect on August 29, 2014. On September 25, 2014 Cal Water filed an advice letter to begin recovering the interim rate balance of $30.6 million via surcharges starting September 30, 2014.

Federal Income Tax Bonus Depreciation

In 2011, Cal Water filed for and received approval to track the benefits from federal income tax accelerated depreciation in a memorandum account due to the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Additional federal income tax deductions for assets placed in service after September 8, 2010, and before December 31, 2011, were $0.1 million for 2010, $16.5 million for 2011, $14.4 million for 2012, and $10.6 million for 2013. The memorandum account may result in a surcredit because of the impact to Cal Water s revenue requirement for changes to working cash estimates, reductions to federal income tax qualified U.S. production activities deductions (QPAD), and changes to contributions-in-aid-of-construction. As of September 30, 2014 and December 31, 2013, the estimated surcredit range is between $1.0 million and $1.5 million. The CPUC will determine the disposition of amounts recorded in the memorandum account in Cal Water s next GRC proceeding.

Selma Groundwater Surcharges

In January 2014, Cal Water and the City of Selma jointly filed an application to apply groundwater surcharges to customers in the Selma District. The surcharges would be used by the City of Selma and the Consolidated Irrigation District for groundwater recharge projects in the Upper Kings River Basin, which is in overdraft. If the CPUC approves the application, groundwater surcharges would be applied to customer bills, and phased in over 8 years, to eventually collect approximately $0.8 million a year for remittance to the City of Selma. The Office of Ratepayer Advocates has submitted testimony opposing the application, and Cal Water and the City of Selma have submitted rebuttal testimony. An evidentiary hearing was held in July, 2014.

Asbestos Memorandum Account Application

On September 3, 2014, Cal Water Filed an application with the CPUC requesting an asbestos litigation memorandum account to record costs associated with current and future asbestos lawsuits against Cal Water. Cal Water s application has been accepted by the CPUC with the preliminary determination that the case is a ratesetting proceeding that will not require evidentiary hearings. No procedural schedule has yet been established for the proceeding.

WRAM/MCBA filings

In March 2014, Cal Water filed three advice letters to true up the revenue under-collections in the 2013 annual WRAMs/MCBAs of its regulated districts. A total under- collection of $34.9 million is being recovered from customers in the form of 12, 18 or 20+ month surcharges.

Expense Offset filings

Expense offsets are dollar-for-dollar increases in revenue to match increased expenses, and therefore do not affect net operating income. In July 2014, Cal Water filed advice letters to offset increased purchased water and pump taxes in six of its regulated districts totaling $6.6 million.

Ratebase Offset filings

For construction projects that are authorized in GRCs as advice letter projects, companies are allowed to file rate base offsets to increase revenues after the plant is placed into service. Cal Water did not file any Ratebase offsets in the third quarter of 2014.

Table of Contents

Regulatory Activity Other States

2011 Pukalani (Hawaii) GRC Filing

In August 2011, Hawaii Water filed a general rate case for Pukalani. On January 15, 2014, Hawaii Water received a Decision and Order for the general rate case for the Pukalani wastewater system approving $0.59 million in additional annual revenues. Hawaii Water reached a comprehensive and conceptual settlement with the Consumer Advocate. This decision approved an increase of $0.28 million in 2014, another increase of $0.15 million in 2015, and another increase of $0.15 million in 2016. Each increase is separated by one year. The new rates for 2014 were implemented in February.

2012 Waikoloa (Hawaii) GRC Filings

In August 2012, Hawaii Water filed general rate cases for the Waikoloa Village Water, Waikoloa Village Wastewater and Waikoloa Resort Utilities requesting $6.3 million in additional annual revenues. The cases are being processed at this time on separate schedules. Hawaii Water and the Consumer Advocate reached settlements on the rate filings for Waikoloa Village Water, Wastewater, and Resort Utilities which would increase annual revenues by $2.7 million if adopted by the Hawaii Public Utilities Commission. On July 23, 2014, the Hawaii Public Utilities Commission approved Waikaloa Resort Utilities, Inc. general rate case authorizing annual revenue increase of $2.0 million.

LIQUIDITY

Cash flow from Operations

Cash flow from operations for the first nine months of 2014 was $100.2 million compared to $101.9 million for the same period of 2013. Cash generated by operations varies during the year due to customer billings, timing of contributions to our benefit plans, and timing of estimated tax payments.

During the first nine months of 2014 we made contributions of $16.4 million to our pension and retiree health care plans compared to contributions of $28.1 million made during the first nine months of 2013. The 2014 estimated cash contribution to the pension plans is $26.8 million and to the other postretirement benefit plans is $9.6 million.

During the first nine months of 2014 we received a $6.0 million refund for 2013 calendar year federal and state income tax payments. No federal and state income refunds were received during the prior year.

The water business is seasonal. Billed revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is 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 to cover operating and capital costs during the winter period. The increase in cash flows 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 flows 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 first the first nine months of 2014 and 2013, we used $86.3 million and $94.8 million, respectively, of cash for both company-funded and developer-funded capital expenditures. For 2014, our capital budget is approximately $110 to $130 million. Annual expenditures fluctuate each year due to the availability of construction resources and our ability to obtain construction permits in a timely manner.

Financing Activities

Net cash used in financing activities was $9.1 million during the first nine months of 2014 compared to $5.0 million cash provided by financing activities for the same period of 2013.

During the first nine months of 2014, we borrowed $99.9 million and paid down $85.0 million on our unsecured revolving credit facilities.

On March 26, 2013, we sold 5,750,000 shares of its common stock in an underwritten public offering for cash proceeds of approximately $105.6 million, net of underwriting discounts and commissions and offering expenses. The net proceeds from the sale of common stock were added to our general funds to be used for general corporate purposes. In April 2013, we used a portion of the net proceeds from the offering to repay outstanding borrowings on the Company and Cal Water lines of credit of $68.3 million and $25.0 million, respectively.

The undercollected net WRAM and MCBA receivable balances were $44.5 million as of September 30, 2014 and $46.3 million as of December 31, 2013, respectively. The undercollected balances were primarily financed by Cal Water using short-term and long-term financing arrangements to meet operational cash requirements. Interest on the undercollected balances, the interest recoverable from ratepayers, is limited to the current 90-day commercial paper rates which is significantly lower than Cal Water s short and long-term financing rates.

Table of Contents

Short-Term and Long-Term Financing

Short-term liquidity is provided by our unsecured revolving credit facilities, which were amended and replaced on June 29, 2011, and internally generated funds. Long-term financing is accomplished through the use of both debt and equity. On September 23, 2010, the CPUC authorized Cal Water to issue $350 million of debt and common stock to finance capital projects and operations.

During the first nine months of 2014, we utilized cash generated operations and borrowings on the unsecured revolving credit facilities. We have not issued Company common stock or first mortgage bonds in 2014. In future periods, management anticipates funding our capital needs through a relatively balanced approach between long term debt and equity.

As of September 30, 2014, there were short-term borrowings of $61.7 million outstanding on the unsecured revolving credit facilities compared to $46.8 million as of December 31, 2013. The increase in short-term borrowings during the first nine months of 2014 was to fund capital expenditures and general operations.

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

Both short-term credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries consolidated total capitalization ratio not to exceed 66.7% and an interest coverage ratio of three or more. As of September 30, 2014, we are in compliance with all of the covenant requirements and are eligible to use the full amount of our credit facilities.

Bond principal and other long-term debt payments were $4.6 million during the first nine months of 2014 compared to $3.1 million during the first nine months of 2013.

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

Dividends

During the first nine months of 2014, our quarterly common stock dividend payments were $0.1625 per share compared to quarterly common stock dividend payments of $0.160 per common share during first nine months of 2013. The third quarter dividend payment was our 278th consecutive quarterly dividend. Annualized, the 2014 dividend rate is $0.65 per common share, compared to $0.64 in 2013. For the full year 2013, the payout ratio was 63% 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 October 29, 2014 meeting, the Board declared the third quarter dividend of $0.1625 per share payable on November 21, 2014, to stockholders of record on November 10, 2014. This was our 279th consecutive quarterly dividend.

2014 Financing Plan

We intend to fund our capital needs in future periods through a relatively balanced approach between long-term debt and equity. The Company and Cal Water have a syndicated unsecured revolving line of credit of $100 million and $300 million, respectively for short-term borrowings. As of September 30, 2014, the Company s availability on these unsecured revolving lines of credit was $338 million.

Table of Contents

Book Value and Stockholders of Record

Book value per common share was $13.02 at September 30, 2014 compared to $12.54 at December 31, 2013. There were approximately 2,191 stockholders of record for our common stock as of October 23, 2014.

Utility Plant Expenditures

During the first nine months of 2014, capital expenditures totaled $86.3 million for company-funded and developer-funded projects. The planned 2014 company-funded capital expenditure budget is approximately $110 to $130 million. The actual amount may vary from the budget number due to timing of actual payments related to current year and prior year projects. We do not control third-party-funded capital expenditures and therefore are unable to estimate the amount of such projects for 2014.

At September 30, 2014, construction work in progress was $120.9 million compared to $156.6 million at September 30, 2013. Work in progress includes projects that are under construction but not yet complete and placed in service.

WATER SUPPLY

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

Historically, approximately 46 percent of our annual water supply is pumped from wells. State groundwater management agencies operate differently in each state. Some of our wells extract ground water from water basins under state ordinances. These are adjudicated groundwater basins, in which a court has settled the dispute between landowners or other parties over how much annual groundwater can be extracted by each party. All of our adjudicated groundwater basins are located in the State of California. Our annual groundwater extraction from adjudicated groundwater basins approximates 6,400 million gallons or 11% of our total annual water supply pumped from wells. Historically, we have extracted less than 100% of our annual adjudicated groundwater rights and have the right to carry forward up to 20% of the unused amount to the next annual period. All of our remaining wells extract ground water from managed or unmanaged water basins. There are no set limits for the ground water extracted from these water basins; however, the state or local water management agencies have the authority to regulate the groundwater extraction quantity whenever there are unforeseen large decreases to water basin levels. Our annual groundwater extraction from managed groundwater basins approximates 35,000 million gallons or 60% percent of our total annual water supply pumped from wells. Our annual groundwater extraction from unmanaged groundwater basins approximates 17,000 million gallons or 29 percent of our total annual water supply pumped from wells. Most of the managed groundwater basins we extract water from have groundwater recharge facilities. We are required to pay well pump taxes to financially support these groundwater recharge facilities. Our well pump taxes for the twelve months ending December 31, 2013 and the nine months ending September 30, 2014 was $10.8 million and $9.8 million, respectively.

California s normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water s rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. As of October 1, 2014, the State of California snowpack water content and rainfall accumulation during the 2013 2014 water year is 63% of normal (per the California Department of Water Resources, Northern Sierra Precipitation Accumulation report). Precipitation in California during the first nine months of 2014 was below normal. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2014 and beyond. Long-term water supply plans are developed for each of our districts to help assure an adequate water supply under various operating and supply conditions. Some districts have unique challenges in meeting water quality standards, but management believes that supplies will meet current standards using current treatment processes.

CONTRACTUAL OBLIGATIONS

During the first nine months of 2014, 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 are 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 .

Table of Contents

Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

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

Our management, with the participation of our CEO and our CFO, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2014. Based on that evaluation, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

(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.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued an updated version of its Internal Control-Integrated Framework (2013 Framework). Originally issued in 1992 (1992 Framework), the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. The 1992 Framework remains available during the transition period, which extends to December 15, 2014, after which time COSO will consider it as superseded by the 2013 Framework. As of September 30, 2014, the Company continues to utilize the 1992 Framework during the transition to the 2013 Framework by the end of 2014.

PART II OTHER INFORMATION

Item 1.

LEGAL PROCEEDINGS

From time to time, the Company has been named as a co-defendant in asbestos-related lawsuits. Several of these cases against the Company have been dismissed without prejudice. In other cases the Company s contractors and insurance policy carriers have settled the cases with no effect on the Company s financial statements. As such, the Company does not currently believe there is any potential loss that is probable to occur related to these matters and therefore no accrual has been recorded.

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company s financial position, results of operations, or cash flows. In the future, we may be involved in disputes and litigation related to a wide range of matters, including employment, construction, environmental issues and operations. Litigation can be time consuming and expensive and could divert management s time and attention from our business. In addition, if we are subject to additional lawsuits or disputes, we might incur significant legal costs and it is uncertain whether we would be able to recover the legal costs from ratepayers or other third parties.

Table of Contents

Item 1A.

RISK FACTORS

There have been no material changes to the Company s risk factors set forth in Part I, Item 1A of the Company s Annual Report on Form 10-K for the year-ended December 31, 2013, filed with the SEC on February 27, 2014.

Item 6.

EXHIBITS

Exhibit	**Description**
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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

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	
October 30, 2014	By:	/s/ Thomas F. Smegal III Thomas F. Smegal III Vice President, Chief Financial Officer and Treasurer

Table of Contents

Exhibit Index

Exhibit	Description
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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document