

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

Commission file number 1-8966

SJW Corp.

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

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

110 West Taylor Street, San Jose, CA
(Address of principal executive offices)

95110
(Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting
company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:
As of July 22, 2010, there were 18,528,554 shares of the registrant's Common Stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SJW Corp. and Subsidiaries
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME (LOSS)**
(UNAUDITED)
(in thousands, except share and per share data)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2010	2009	2010	2009
OPERATING REVENUE	\$ 54,128	58,194	\$ 94,539	98,215
OPERATING EXPENSE:				
Operation:				
Purchased water	11,335	12,601	17,154	20,390
Power	1,584	1,817	2,728	2,577
Groundwater extraction charges	6,238	9,480	11,233	14,532
Total production costs	19,157	23,898	31,115	37,499
Administrative and general	6,683	6,897	13,741	14,027
Other	4,524	4,547	8,992	8,524
Maintenance	3,289	3,216	6,065	6,132
Property taxes and other non-income taxes	2,060	2,392	3,763	4,682
Depreciation and amortization	7,070	6,238	14,181	12,789
Income taxes	3,101	2,975	3,783	3,076
Total operating expense	45,884	50,163	81,640	86,729
OPERATING INCOME	8,244	8,031	12,899	11,486
OTHER (EXPENSE) INCOME:				
Interest on senior notes	(3,636)	(3,488)	(7,258)	(6,747)
Mortgage and other interest expense	(569)	(500)	(1,069)	(1,029)
Dividends	327	325	654	649
Other, net	150	50	275	175
NET INCOME	4,516	4,418	5,501	4,534
Other comprehensive loss:				
Unrealized loss on investment	(2,101)	(5,522)	(1,232)	(10,549)
Less: income taxes related to other comprehensive loss	861	2,264	505	4,325
Other comprehensive loss, net	(1,240)	(3,258)	(727)	(6,224)
COMPREHENSIVE INCOME (LOSS)	\$ 3,276	1,160	\$ 4,774	(1,690)
EARNINGS PER SHARE				
Basic	\$ 0.24	0.24	\$ 0.29	0.25
Diluted	\$ 0.24	0.23	\$ 0.29	0.24
DIVIDENDS PER SHARE	\$ 0.17	0.17	\$ 0.34	0.33
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	18,528,497	18,482,670	18,523,794	18,476,307
Diluted	18,740,662	18,670,057	18,731,104	18,664,299

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share and per share data)

	JUNE 30, 2010	DECEMBER 31, 2009
ASSETS		
Utility plant:		
Land	\$ 8,563	8,558
Depreciable plant and equipment	946,512	913,071
Construction in progress	24,807	11,119
Intangible assets	13,092	11,278
	992,974	944,026
Less accumulated depreciation and amortization	309,914	298,921
	683,060	645,105
Real estate investment	88,000	88,000
Less accumulated depreciation and amortization	8,027	7,188
	79,973	80,812
CURRENT ASSETS:		
Cash and cash equivalents	3,495	1,416
Restricted cash	27,733	—
Accounts receivable:		
Customers, net of allowances for uncollectible accounts	13,758	10,892
Other	577	677
Accrued unbilled utility revenue	16,577	12,435
Materials and supplies	988	994
Prepaid expenses	1,320	1,596
	64,448	28,010
OTHER ASSETS:		
Investment in California Water Service Group	39,268	40,500
Debt issuance costs and broker fees, net of accumulated amortization	3,783	3,098
Regulatory assets	78,274	78,525
Other	4,174	2,424
	125,499	124,547
	\$ 952,980	878,474

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share and per share data)

	JUNE 30, 2010	DECEMBER 31, 2009
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Shareholders' equity:		
Common stock, \$0.521 par value; authorized 36,000,000 shares; issued and outstanding 18,528,554 shares on June 30, 2010 and 18,499,602 on December 31, 2009	\$ 9,650	9,635
Additional paid-in capital	22,646	22,046
Retained earnings	207,028	207,888
Accumulated other comprehensive income	12,460	13,187
Total shareholders' equity	251,784	252,756
Long-term debt, less current portion	296,295	246,879
	<u>548,079</u>	<u>499,635</u>
CURRENT LIABILITIES:		
Line of credit	11,850	5,800
Current portion of long-term debt	1,108	1,081
Accrued groundwater extraction charges and purchased water	7,634	4,496
Purchased power	913	486
Accounts payable	17,965	6,562
Accrued interest	5,129	4,979
Accrued property taxes and other non-income taxes	725	1,481
Accrued payroll	3,479	2,412
Income tax payable	1,911	728
Other current liabilities	4,300	3,933
	<u>55,014</u>	<u>31,958</u>
DEFERRED INCOME TAXES	101,119	100,766
UNAMORTIZED INVESTMENT TAX CREDITS	1,585	1,615
ADVANCES FOR CONSTRUCTION	68,396	69,086
CONTRIBUTIONS IN AID OF CONSTRUCTION	122,026	121,420
DEFERRED REVENUE	1,117	1,179
POSTRETIREMENT BENEFIT PLANS	49,892	47,484
OTHER NONCURRENT LIABILITIES	5,752	5,331
COMMITMENTS AND CONTINGENCIES	—	—
	<u>\$ 952,980</u>	<u>878,474</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW Corp. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	SIX MONTHS ENDED	
	JUNE 30,	
	2010	2009
OPERATING ACTIVITIES:		
Net income	\$ 5,501	4,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,181	12,789
Deferred income taxes	614	4,514
Share-based compensation	423	446
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	(6,908)	(6,106)
Accounts payable, purchased power and other current liabilities	691	1,756
Accrued groundwater extraction charges and purchased water	3,138	2,856
Accrued taxes	449	(1,391)
Accrued interest	150	417
Accrued payroll	1,067	(14)
Postretirement benefits	2,689	2,218
Other changes, net	162	303
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>22,157</u>	<u>22,322</u>
INVESTING ACTIVITIES:		
Additions to utility plant:		
Company-funded	(38,507)	(22,163)
Contributions in aid of construction	(1,695)	(3,985)
Payments for business acquisition	(2,577)	(3,720)
Cost to retire utility plant, net of salvage	(196)	(125)
NET CASH USED IN INVESTING ACTIVITIES	<u>(42,975)</u>	<u>(29,993)</u>
FINANCING ACTIVITIES:		
Borrowings from line of credit	30,850	8,300
Repayments of line of credit	(24,800)	(23,700)
Long-term borrowings	22,267	30,000
Repayments of long-term borrowings	(391)	(369)
Debt issuance costs	(783)	—
Dividends paid	(6,299)	(6,097)
Exercise of stock options and similar instruments	290	302
Tax benefits realized from share options exercised	4	80
Receipts of advances and contributions in aid of construction	2,769	1,582
Refunds of advances for construction	(1,010)	(1,062)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>22,897</u>	<u>9,036</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,079	1,365
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,416	3,406
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 3,495</u>	<u>4,771</u>
Cash paid during the period for:		
Interest	\$ 8,491	7,523
Income taxes	1,442	191
Supplemental disclosure of non-cash activities:		
Change in accrued payables for additions to utility plant	11,636	3,514
Utility property installed by developers	117	1,153
Loan proceeds held as restricted cash	27,733	—

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010
(in thousands, except share and per share data)

Note 1. General

In the opinion of SJW Corp., the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for the fair presentation of the results for the interim periods. These adjustments consist only of normal recurring adjustments.

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in accordance with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). The Notes to Consolidated Financial Statements in SJW Corp.'s 2009 Annual Report on Form 10-K should be read with the accompanying unaudited condensed consolidated financial statements.

Water sales are seasonal in nature and influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater and lower in the winter months when cooler temperatures and increased rainfall curtail water usage and sales.

Basic earnings per share is calculated using income available to common shareholders, divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated using income available to common shareholders divided by the weighted average number of shares of common stock including both shares outstanding and shares potentially issuable in connection with stock options, deferred restricted common stock awards under SJW Corp.'s Long-Term Incentive Plan (as amended, the "Incentive Plan") and shares potentially issuable under the Employee Stock Purchase Plan ("ESPP"). For the three months ended June 30, 2010 and 2009, 0 and 1,885 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively. For the six months ended June 30, 2010 and 2009, 2,433 and 3,780 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively.

Note 2. Long-Term Incentive Plan and Share-Based Compensation

Common stock

SJW Corp. accounts for share-based compensation based on the grant date fair value of the awards issued to employees in accordance with FASB ASC Topic 718 - "Compensation - Stock Compensation," which requires the measurement and recognition of compensation expense based on the estimated fair value for all share-based payment awards.

As of June 30, 2010, the Incentive Plan allows SJW Corp. to provide employees, non-employee Board members or the Board of Directors, consultants, and other independent advisors who provide services to the company or any parent or subsidiary the opportunity to acquire an equity interest in SJW Corp. The types of awards included in the Incentive Plan are restricted stock awards, restricted stock units, performance shares, or other share-based awards. In addition, shares are issued under the ESPP. As of June 30, 2010, the remaining shares available for issuance under the Incentive Plan were 1,206,577, and 391,776 shares are issuable upon the exercise of outstanding options, restricted stock units, and deferred restricted stock units under the Incentive Plan.

The total compensation cost charged to income under the Incentive Plan for the three and six months ended June 30, 2010 was \$182 and \$423, respectively, and for the three and six months ended June 30, 2009 was \$208 and \$446, respectively. The compensation costs charged to income is recognized on a straight-line basis over the requisite service vesting period. A summary of compensation costs charged to income, proceeds from the exercise of stock options and similar instruments, and the tax benefit realized from stock options exercised, that are recorded to additional paid-in capital and common stock, by award type, are presented below for the six months ended June 30, 2010 and 2009.

SJW CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(in thousands, except share and per share data)

	Six months ended June 30,	
	2010	2009
Compensation costs charged to income:		
Stock options	\$ —	9
ESPP	46	44
Restricted stock and deferred restricted stock	377	393
Total compensation costs charged to income	\$ 423	446
Excess tax benefits realized from share options exercised and stock issuance:		
Stock options	\$ 4	3
Restricted stock and deferred restricted stock	—	77
Total excess tax benefits realized from share options exercised and stock issuance	\$ 4	80
Proceeds from the exercise of stock options and similar instruments:		
Stock options	\$ 32	29
ESPP	258	250
Restricted stock and deferred restricted stock	—	23
Total proceeds from the exercise of stock options and similar instruments	\$ 290	302

Stock Options

No options were granted during the three months ended June 30, 2010 and 2009.

As of June 30, 2010, there are no unrecognized compensation costs related to stock options as all costs have been recognized.

Restricted Stock and Deferred Restricted Stock Plans

On January 4, 2010, restricted stock units covering an aggregate of 14,389 shares of common stock of SJW Corp. were granted to several executives of SJW Corp. and its subsidiaries. These units will vest in four equal successive installments upon completion of each year of service with no dividend equivalent rights. Share-based compensation expense is being recognized at grant date fair value of \$20.64 per unit over the vesting period beginning in 2010.

On January 26, 2010, market performance-vesting restricted stock units granted to a key executive of SJW Corp. on January 25, 2007 and covering 7,000 shares of common stock of SJW Corp. were cancelled because the market performance objective was not attained. However, since the requisite service over the three-year service period of the award was rendered even though the market condition was not achieved, compensation cost over the three-year requisite service period was not reversed.

On January 26, 2010, restricted stock units covering an aggregate of 49,850 shares of common stock of SJW Corp. were awarded to a key executive of SJW Corp. These units do not include dividend equivalent rights. Such units include market performance-vesting restricted units covering 37,850 shares of common stock of SJW Corp. which will be issued if the market performance objective is attained and the executive continues in the Company's service through the completion of the five-year performance period. Share-based compensation expense is recognized over five years at \$8.77 per unit. The remaining 12,000 restricted stock units are recognized over three years at \$20.02 per unit. The fair value of the market performance-vesting restricted stock units was estimated using the fair value of SJW Corp.'s common stock with the effect of market conditions and no dividend yield on the date of grant, and assumes the market performance goals will be attained.

On April 26, 2010, a total of 207 shares of common stock were distributed to a retired member of SJW Corp.'s Board of Directors. There was no excess tax benefit realized from this stock issuance.

As of June 30, 2010, the total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to \$1,445. This cost is expected to be recognized over a weighted-average period of 1.98 years.

SJW CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(in thousands, except share and per share data)

Dividend Equivalent Rights

Under the Incentive Plan, certain holders of options, restricted stock, and deferred restricted stock awards may have the right to receive dividend equivalent rights (“DERs”) each time a dividend is paid on common stock after the grant date. Stock compensation on DERs is recognized as a liability and recorded against retained earnings on the date dividends are issued. For the three and six months ended June 30, 2010, \$31 and \$62, respectively, related to DERs were recorded against retained earnings and were accrued as a liability. For the three and six months ended June 30, 2009, \$30 and \$62, respectively, related to DERs were recorded against retained earnings and were accrued as a liability.

SJW Corp.’s Deferred Restricted Stock and Deferral Election Programs for non-employee Board members were amended effective January 1, 2008, to allow the DERs with respect to the deferred shares to remain in effect only through December 31, 2017. Accordingly, the last DERs conversion into deferred restricted stock units will occur on the first business day in January 2018. Previously, no such time limitation was placed in the Deferred Restricted Stock and Deferral Election Programs.

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of SJW Corp.’s common stock at 85% of the fair market value of shares on the purchase date. Under the ESPP, employees can designate up to a maximum of 10% of their base compensation for the purchase of shares of common stock, subject to certain restrictions. A total of 270,400 shares of common stock have been reserved for issuance under the ESPP.

After considering the estimated employee terminations or withdrawals from the plan before the purchase date, SJW Corp.’s recorded expenses were \$24 and \$39 for the three and six months ended June 30, 2010, respectively, and \$22 and \$36 for the three and six months ended June 30, 2009, respectively, related to the ESPP.

The total unrecognized compensation costs related to the semi-annual offering period that ends July 31, 2010 for the ESPP is approximately \$8. This cost is expected to be recognized during the third quarter of 2010.

Note 3. Real Estate Investments

The major components of real estate investments as of June 30, 2010 and December 31, 2009 are as follows:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Land	\$22,385	22,381
Buildings and improvements	65,384	65,388
Intangibles	231	231
Subtotal	88,000	88,000
Less: accumulated depreciation and amortization	8,027	7,188
Total	<u>\$79,973</u>	<u>80,812</u>

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

SJW CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(in thousands, except share and per share data)

Note 4. Employee Benefit Plans

The components of net periodic benefit costs for San Jose Water Company's pension plan, its Executive Supplemental Retirement Plan and other postretirement benefit plan for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	\$ 822	678	\$ 1,644	1,356
Interest cost	1,403	1,238	2,807	2,476
Other cost	712	642	1,423	1,284
Expected return on assets	(935)	(765)	(1,871)	(1,530)
	<u>\$ 2,002</u>	<u>1,793</u>	<u>\$ 4,003</u>	<u>3,586</u>

The following table summarizes the fair values of plan assets by major categories as required by FASB ASC Topic 715, as of June 30, 2010:

Asset Category	Benchmark	Total	Fair Value Measurements at June 30, 2010		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents		\$ 2,896	\$ 2,896	-	-
Actively Managed (a):					
U.S. Large Cap Equity	Russell 1000 Growth	3,293	3,293	-	-
U.S. Small Cap Equity	Russell 2000	1,249	1,249	-	-
U.S. Small Mid Cap Equity	Russell 2500	3,067	3,067	-	-
Non-U.S. Large Cap Equity	MSCI EAFE Net	2,234	2,234	-	-
Passive Index Fund ETFs (b):					
U.S. Large Cap Equity	S&P 500	7,361	7,361	-	-
U.S. Small Mid Cap Equity	Russell 2500	1,819	1,819	-	-
Emerging Market Equity	MSCI Emerging Markets Net	2,046	2,046	-	-
Non-U.S. Large Cap Equity	MSCI EAFE Net	2,322	2,322	-	-
REIT	Nareit – Equity Reits	862	862	-	-
Fixed Income (c)	(c)	19,012	19,012	-	-
Total		<u>\$46,161</u>	<u>\$46,161</u>	<u>-</u>	<u>-</u>

The Plan has a target allocation of 60% invested in a diversified array of equity securities to provide long-term capital appreciation and 40% invested in a diversified array of fixed income securities to provide preservation of capital plus generation of income.

- (a) Actively managed portfolio of securities with the goal to exceed the stated benchmark performance.
- (b) Open-ended fund of securities with the goal to track the stated benchmark performance.
- (c) Actively managed portfolio of fixed income securities with the goal to exceed the Barclays Capital Aggregate Bond and Merrill Lynch High Yield Master II performance.

In 2010, San Jose Water Company is required by the Internal Revenue Service to make minimum contributions of \$2,870 and \$499 to the pension plan and other postretirement benefit plan, respectively. For the three and six months ended June 30, 2010, \$642 and \$1,159, respectively, has been contributed to the pension plan and other postretirement benefit plan.

SJW CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(in thousands, except share and per share data)

Note 5. Segment and Nonregulated Business Reporting

SJW Corp. is a holding company with four subsidiaries: (i) San Jose Water Company, a water utility operation with both regulated and nonregulated businesses, (ii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operates commercial building rentals (“Real Estate Services”), (iii) SJW TX, Inc. which is doing business as Canyon Lake Water Service Company, a regulated water utility located in Canyon Lake, Texas and (iv) Texas Water Alliance Limited, a nonregulated water utility operation which is undertaking activities that are necessary to develop a water supply project in Texas. In accordance with FASB ASC Topic 280 – “Segment Reporting,” SJW Corp. has determined that it has two reportable business segments. The first segment is that of providing water utility and utility-related services to its customers through SJW Corp.’s subsidiaries, San Jose Water Company, Canyon Lake Water Service Company, and Texas Water Alliance Limited, together referred to as “Water Utility Services.” The second segment is property management and investment activity conducted by SJW Land Company, referred to as “Real Estate Services.”

SJW Corp.’s reportable segments have been determined based on information used by the chief operating decision maker. SJW Corp.’s chief operating decision maker is its President and Chief Executive Officer (“CEO”). The CEO reviews financial information presented on a consolidated basis that is accompanied by disaggregated information about operating revenue, net income and total assets, by subsidiaries.

The tables below set forth information relating to SJW Corp.’s reportable segments and distribution of regulated and nonregulated business activities within the reportable segments. Certain allocated assets, revenue and expenses have been included in the reportable segment amounts. Other business activity of SJW Corp. not included in the reportable segments is included in the “All Other” category.

For Three Months Ended June 30, 2010

	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
	Operating revenue	\$ 52,172	1,134	822	—	52,172	
Operating expense	43,958	949	624	353	43,958	1,926	45,884
Operating income (loss)	8,214	185	198	(353)	8,214	30	8,244
Net income (loss)	5,225	172	(311)	(570)	5,225	(709)	4,516
Depreciation and amortization	6,563	87	420	—	6,563	507	7,070
Interest expense	3,762	—	443	—	3,762	443	4,205
Income tax expense (benefit) in operating income	3,402	121	(215)	(207)	3,402	(301)	3,101
Assets	\$822,391	9,440	81,816	39,333	822,391	130,589	952,980

For Three Months Ended June 30, 2009

	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
	Operating revenue	\$ 56,099	1,247	848	—	56,099	
Operating expense	47,700	1,023	1,054	386	47,700	2,463	50,163
Operating income (loss)	8,399	224	(206)	(386)	8,399	(368)	8,031
Net income (loss)	5,069	224	(674)	(201)	5,069	(651)	4,418
Depreciation and amortization	5,733	85	420	—	5,733	505	6,238
Interest expense	3,514	—	463	11	3,514	474	3,988
Income tax expense (benefit) in operating income	3,514	152	(497)	(194)	3,514	(539)	2,975
Assets	\$740,253	5,384	82,977	41,741	740,253	130,102	870,355

SJW CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(in thousands, except share and per share data)

For Six Months Ended June 30, 2010

	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
	Operating revenue	\$ 90,932	1,978	1,629	—	90,932	
Operating expense	78,310	1,631	1,115	584	78,310	3,330	81,640
Operating income (loss)	12,622	347	514	(584)	12,622	277	12,899
Net income (loss)	6,198	333	(485)	(545)	6,198	(697)	5,501
Depreciation and amortization	13,169	173	839	—	13,169	1,012	14,181
Interest expense	7,443	—	884	—	7,443	884	8,327
Income tax expense (benefit) in operating income	4,211	232	(334)	(326)	4,211	(428)	3,783
Assets	\$822,391	9,440	81,816	39,333	822,391	130,589	952,980

For Six Months Ended June 30, 2009

	Water Utility Services		Real Estate Services	All Other*	SJW Corp.		Total
	Regulated	Non regulated	Non regulated	Non regulated	Regulated	Non regulated	
	Operating revenue	\$ 93,974	2,043	2,198	—	93,974	
Operating expense	82,320	1,680	1,987	742	82,320	4,409	86,729
Operating income (loss)	11,654	363	211	(742)	11,654	(168)	11,486
Net income (loss)	5,183	362	(746)	(265)	5,183	(649)	4,534
Depreciation and amortization	11,779	171	839	—	11,779	1,010	12,789
Interest expense	6,817	—	933	26	6,817	959	7,776
Income tax expense (benefit) in operating income	3,610	246	(543)	(237)	3,610	(534)	3,076
Assets	\$740,253	5,384	82,977	41,741	740,253	130,102	870,355

* The "All Other" category includes SJW Corp. on a stand-alone basis.

Note 6. Long-Term Liabilities

SJW Corp.'s contractual obligations and commitments include senior notes, mortgages and other obligations. San Jose Water Company, a subsidiary of SJW Corp., has received advance deposit payments from its customers on certain construction projects. Refunds of the advance deposit payments constitute an obligation of San Jose Water Company solely.

On May 27, 2010, SJW Corp. and SJW Land Company entered into a credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), which provided an unsecured revolving credit facility in an aggregate amount of \$10,000. This credit agreement replaced the then existing credit facility between SJW Corp., SJW Land Company and Wells Fargo. In addition, San Jose Water Company and Wells Fargo entered into a credit agreement which provided an unsecured revolving credit facility in an aggregate amount of \$75,000. This credit agreement expanded and replaced the then existing credit facility between San Jose Water Company and Wells Fargo. The outstanding principal balance on both credit agreements shall bear interest either: (a) at a fluctuating rate per annum 1.00% below the prime rate, or (b) at a fixed rate per annum determined by Wells Fargo to be 1.375% above LIBOR. These two credit agreements will expire on June 1, 2012. San Jose Water Company's unsecured bank line of credit has the following affirmative covenants: (1) the funded debt cannot exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar-month period cannot be less than 225% of interest charges. As of June 30, 2010, San Jose Water Company's funded debt was 55% of total capitalization and the net income available for interest charges was 328% of interest charges. As of June 30, 2010, San Jose Water Company is in compliance with all covenants.

On June 9, 2010, San Jose Water Company entered into a Bond Purchase Contract with Goldman, Sachs & Co., the Treasurer of the State of California and the California Pollution Control Financing Authority (the "Authority") for the placement of \$50,000 aggregate principal amount of 5.10% fixed rate California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project) Series 2010A with interest only payments until maturity, which is June 1, 2040 (the "Bonds").

SJW CORP. AND SUBSIDIARIES
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June 30, 2010
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The Bonds were issued by the Authority on June 16, 2010 pursuant to the provisions of the California Pollution Control Financing Authority Act and an Indenture, dated as of June 1, 2010 (the “Indenture”), between the Authority and Wells Fargo, as trustee. The proceeds from the issuance of the Bonds will be loaned by the Authority to San Jose Water Company pursuant to a Loan Agreement, dated as of June 1, 2010 (the “Loan Agreement”), between the Authority and San Jose Water Company. The loan proceeds will be used by San Jose Water Company to: (1) finance certain costs of (i) improvements to the structures and facilities that are integral to the supply of water throughout the water supply system owned by San Jose Water Company (the “Water System”), (ii) improvements to the water distribution system, and (iii) the acquisition of equipment for the Water System, all in the current service areas of San Jose Water Company and to the extent they will prevent the pollution of drinking water or improve the quality of water or ensure the safe handling, recycling or disposal of materials that might otherwise be improperly disposed of; and (2) pay certain costs of issuance of the Bonds.

The Loan Agreement contains affirmative and negative covenants customary for a loan agreement relating to revenue bonds, including, among other things, complying with certain disclosure obligations and covenants relating to the tax exempt status of the interest on the Bonds and limitations and prohibitions relating to the transfer of the project funded by the loan proceeds and the assignment of the Loan Agreement. The Loan Agreement and the Indenture contain provisions that provide for the acceleration of the indebtedness upon the occurrence of a loan default event (as defined in the Loan Agreement) and an event of default (as defined in the Indenture).

The loan proceeds are held by the trustee and classified as restricted cash. When a capital expenditure is incurred by San Jose Water Company which is an approved use of funds as defined in the Loan Agreement, San Jose Water Company will seek the release of restricted cash from the trustee. Once the trustee approves the capital expenditure, they will transfer cash from the restricted cash account into San Jose Water Company’s general account. As of June 30, 2010, the balance recorded in restricted cash was \$27,733 and unamortized debt issuance costs were \$782. For the three and six months ended June 30, 2010, \$21,489 has been released from restricted cash by the trustee.

Note 7. Fair Value Measurement

The following table summarizes the assets and liabilities measured at fair value on a recurring basis as required by FASB ASC Topic 820 – “Fair Value Measurements and Disclosures,” as of June 30, 2010 and December 31, 2009:

	<u>Balance as of June 30, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Investment in California Water Service Group	\$ 39,268	\$39,268	—	—
	<u>Balance as of December 31, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Investment in California Water Service Group	\$ 40,500	\$40,500	—	—

SJW CORP. AND SUBSIDIARIES
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June 30, 2010
(in thousands, except share and per share data)

Note 8. Balancing and Memorandum Account Recovery Procedures

The California Public Utilities Commission (“CPUC”) issued San Jose Water Company’s most recent general rate case decision in November 2009. As part of that decision, the over-collected balance in the Company’s balancing account for expense offsets for the period January 1, 2005 to December 31, 2007 of approximately \$1,696 has been reviewed and authorized for inclusion in customer rates as a 12-month customer surcredit.

As of June 30, 2010 and December 31, 2009, the balance in San Jose Water Company’s remaining balancing accounts for expense offsets was an under-collection of \$843 and over-collection of \$1,062, respectively, including interest. These balancing accounts are expected to be reviewed for inclusion in customer rates by the CPUC as part of San Jose Water Company’s next general rate case.

On June 2, 2010, San Jose Water Company filed an advice letter with the CPUC requesting authorization to increase revenues by \$5,740 or approximately 2.61%. This increase is intended to recover the accumulated balance in the Mandatory Conservation Revenue Adjustment Memorandum Account (“MCRAM”), which covered the period from August 3, 2009 to May 1, 2010. The CPUC authorized San Jose Water Company to establish a MCRAM to track the revenue impact of mandatory conservation upon San Jose Water Company’s quantity revenue resulting from mandatory conservation instituted by Santa Clara Valley Water District. As directed by the CPUC’s Water Division, any revenue increase would be recovered via a surcharge on the existing quantity rate for a period of twelve months following final approval by the CPUC. All revenue would be recognized immediately after final approval by the CPUC.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in thousands, except share and per share data)

The information in this Item 2 should be read in conjunction with the financial information and the notes thereto included in Item 1 of this Form 10-Q and the consolidated financial statements and notes thereto and the related “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in SJW Corp.’s Annual Report on Form 10-K for the year ended December 31, 2009.

This report contains forward-looking statements within the meaning of the federal securities laws relating to future events and future results of SJW Corp. and its subsidiaries that are based on current expectations, estimates, forecasts, and projections about SJW Corp. and its subsidiaries and the industries in which SJW Corp. operates and the beliefs and assumptions of the management of SJW Corp. Such forward-looking statements are identified by words including “expect,” “estimate,” “anticipate,” “intends,” “plans,” “may,” “should,” “will,” and similar expressions. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Important factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report and our most recent Form 10-K filed with the Securities and Exchange Commission (the “SEC”) under the item entitled “Risk Factors,” and in other reports SJW Corp. files with the SEC, specifically the most recent reports on Form 10-Q and Form 8-K, each as it may be amended from time to time. SJW Corp. undertakes no obligation to update the information contained in this report, including the forward-looking statements, to reflect any event or circumstance that may arise after the date of this report.

General:

SJW Corp. is a holding company with four subsidiaries.

San Jose Water Company, a wholly owned subsidiary of SJW Corp., is a public utility in the business of providing water service to approximately 225,000 connections that serve a population of approximately one million people in an area comprising approximately 138 square miles in the metropolitan San Jose, California area.

The principal business of San Jose Water Company consists of the production, purchase, storage, purification, distribution, wholesale and retail sale of water. San Jose Water Company provides water service to customers in portions of the cities of Cupertino and San Jose and in the cities of Campbell, Monte Sereno, Saratoga and the Town of Los Gatos, and adjacent unincorporated territory, all in the County of Santa Clara in the State of California. San Jose Water Company distributes water to customers in accordance with accepted water utility methods which include pumping from storage and gravity feed from high elevation reservoirs. San Jose Water Company also provides nonregulated water related services under agreements with municipalities. These nonregulated services include full water system operations and billing and cash remittance services.

San Jose Water Company has utility property including land held in fee, impounding reservoirs, diversion facilities, wells, distribution storage, and all water facilities and other property necessary to provide utility service to its customers. Under Section 851 of the California Public Utilities Code, properties currently used and useful in providing utilities services cannot be disposed of unless CPUC approval is obtained.

San Jose Water Company also has approximately 700 acres of nonutility property which has been identified as no longer used and useful in providing utility services. Approximately 15 acres of the nonutility property are developable and located in the vicinity of the San Jose metropolitan area. The remaining properties are located in the hillside area adjacent to San Jose Water Company’s watershed properties.

SJW Land Company, a wholly owned subsidiary of SJW Corp., owned the following real properties as of June 30, 2010:

Description	Location	Acreage	Square Footage	Percentage as of June 30, 2010 of SJW Land Company	
				Revenue	Expense
2 Commercial buildings	San Jose, California	2	28,000	28%	15%
Warehouse building	Windsor, Connecticut	17	170,000	24%	13%
Warehouse building	Orlando, Florida	8	147,000	13%	7%
Retail building	El Paso, Texas	2	14,000	9%	2%
Warehouse building	Phoenix, Arizona	11	176,000	26%	12%
Warehouse building	Knoxville, Tennessee	29	346,000	N/A	11%
Commercial building	Knoxville, Tennessee	15	135,000	N/A	39%
Undeveloped land	Knoxville, Tennessee	10	N/A	N/A	1%
Undeveloped land	San Jose, California	5	N/A	N/A	N/A

The California properties include a 70% limited partnership interest in 444 West Santa Clara Street, L.P. The limited partnership has been determined to be a variable interest entity within the scope of FASB ASC Topic 810 – “Consolidation” with SJW Land Company as the primary beneficiary, and as a result, it has been consolidated with SJW Land Company.

SJWTX, Inc., a wholly owned subsidiary of SJW Corp., doing business as Canyon Lake Water Service Company (“CLWSC”), is a public utility in the business of providing water service to approximately 9,200 connections that serve approximately 36,000 people. CLWSC’s service area comprises more than 237 square miles in western Comal County and southern Blanco County in the growing region between San Antonio and Austin, Texas.

Texas Water Alliance Limited (“TWA”), a wholly owned subsidiary of SJW Corp., is undertaking activities that are necessary to develop a water supply project in Texas.

In addition, SJW Corp. also owns 1,099,952 shares of common stock of California Water Service Group, which represents approximately 5% of that company’s outstanding shares of common stock as of June 30, 2010.

Business Strategy:

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

- (1) Regional regulated water utility operations.
- (2) Regional nonregulated water utility related services provided in accordance with the guidelines established by the CPUC.
- (3) Out-of-region water and utility related services, primarily in the Western United States.
- (4) Real estate investment activities in SJW Land Company.

As part of its pursuit of the above four strategic areas, the Company considers from time to time opportunities to acquire businesses and assets. However, SJW Corp. cannot be certain it will be successful in identifying and consummating any strategic business acquisitions relating to such opportunities. In addition, any transaction will involve numerous risks, including the possibility of incurring more costs than benefits derived from the acquisition, the assumption of certain known and unknown liabilities related to the acquired assets, the diversion of management’s attention from day-to-day operations of the business, the potential for a negative impact on SJW Corp.’s financial position and operating results, entering markets in which SJW Corp. has no or limited direct prior experience and the potential loss of key employees of any acquired company. SJW Corp. cannot be certain that any transaction will be successful and will not materially harm its operating results or financial condition.

Critical Accounting Policies:

SJW Corp. has identified the accounting policies delineated below as the policies critical to its business operations and the understanding of the results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. SJW Corp. bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. SJW Corp.’s critical accounting policies are as follows:

Revenue Recognition

SJW Corp. recognizes its regulated and nonregulated revenue when services have been rendered, in accordance with FASB ASC Topic 605 – “Revenue Recognition.”

Metered revenue of the Water Utility Services includes billing to customers based on meter readings plus an estimate of water used between the customers’ last meter reading and the end of the accounting period. The Water Utility Services reads the majority of its customers’ meters on a bi-monthly basis and records its revenue based on its meter reading results. Unbilled revenue from the last meter reading date to the end of the accounting period is estimated based on the most recent usage patterns, production records and the effective tariff rates. Actual results could differ from those estimates, which may result in an adjustment to the operating revenue in the period which the revision to the Water Utility Services’ estimates are determined. As of June 30, 2010 and December 31, 2009, accrued unbilled revenue was \$16,577 and \$12,435 respectively.

Unaccounted-for water on a 12 month-to-date basis for June 30, 2010 and 2009 approximated 7.62% and 7.97%, respectively, as a percentage of production. The estimate is based on the results of past experience, the trend and efforts in reducing the Water Utility Services’ unaccounted-for water through main replacements and lost water reduction programs.

Revenues also include a surcharge collected from regulated customers that is paid to the CPUC. This surcharge is recorded both in operating revenues and administrative and general expenses. For the six months ended June 30, 2010 and 2009, the surcharge was \$1,277 and \$1,393, respectively.

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

Recognition of Regulatory Assets and Liabilities

Generally accepted accounting principles for water utilities include the recognition of regulatory assets and liabilities as permitted by FASB ASC Topic 980 - "Regulated Operations." In accordance with ASC Topic 980, the Water Utility Services, to the extent applicable, record deferred costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the ratemaking process in a period different from when the costs and credits are incurred. Accounting for such costs and credits is based on management's judgment and prior historical ratemaking practices, and it occurs when management determines that it is probable that these costs and credits will be recognized in the future revenue of the Water Utility Services through the ratemaking process. The regulatory assets and liabilities recorded by the Water Utility Services, in particular, San Jose Water Company, primarily relate to the recognition of deferred income taxes for ratemaking versus tax accounting purposes and the postretirement pension benefits, medical costs, accrued benefits for vacation and asset retirement obligations that have not been passed through rates. The disallowance of any asset in future ratemaking, including deferred regulatory assets, would require San Jose Water Company to immediately recognize the impact of the costs for financial reporting purposes. No disallowance was recognized as of June 30, 2010 and December 31, 2009. Net regulatory assets recorded by San Jose Water Company as of June 30, 2010 and December 31, 2009 were \$78,274 and \$78,525, respectively.

Pension Accounting

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

The pension plan is administered by a committee that is composed of an equal number of company and union representatives (the "Committee"). The Committee has retained an investment consultant, presently Wells Fargo Advisors, LLC, to assist it with, among other things, asset allocation strategy, investment policy advice, performance monitoring, and manager due diligence. Investment decisions have been delegated by the Committee to investment managers. Investment guidelines provided in the Investment Policy Statement require that at least 25% of the plan assets be invested in fixed income securities. As of December 31, 2009, the plan assets consist of approximately 37% bonds, 4% cash equivalents, and 59% equities. Furthermore, equities are to be diversified by industry groups and selected to achieve a balance of long-term growth and income combined with a goal of long-term preservation of capital. Except as provided for in the prospectus of any co-mingled investments, investment managers may not invest in commodities and futures contracts, private placements, options, letter stock, speculative securities, nor may they hold more than 5% of assets of any one private corporation. Except as provided for in the prospectus of any co-mingled investments, fixed income assets may only be invested in bonds, commercial paper, and money market funds with acceptable ratings by Moody's or Standard & Poor's as defined by the Investment Policy Statement. The investment manager performance is reviewed regularly by the investment consultant who provides quarterly reports to the Committee for review.

The market values of the plan assets are marked to market at the measurement date. The investment trust assets incur unrealized market gains or losses from time to time. Both unrealized market gains and losses on pension assets are amortized over 12.93 years for actuarial expense calculation purposes.

Income Taxes

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

Balancing Account

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

A balancing account is currently being maintained for the following items: purchased water, purchased power and groundwater extraction charges. The amount in the balancing account varies with the seasonality of the water utility business such that, during the summer months when the demand for water is at its peak, the account tends to reflect an under-collection while, during the winter months when demand for water is relatively lower, the account tends to reflect an over-collection.

Since the amounts in the balancing accounts must be approved by the CPUC before they can be incorporated into rates, San Jose Water Company does not recognize balancing accounts in its revenue until the CPUC authorizes a change in customers' rates related to any balancing account. It is typical for the CPUC to incorporate any over-collected and/or under-collected balances in balancing accounts into customer rates at the time rate decisions are made as part of the Company's general rate case proceedings by assessing temporary surcredits and/or surcharges. In such circumstances, the Company recognizes an impact to revenue, either positive or negative, as the surcredits and/or surcharges are billed to customer accounts.

In the case where the Company's balancing or memorandum-type accounts that have been authorized by the CPUC reach certain thresholds or have termination dates, the Company can request the CPUC to recognize the amounts in such accounts in customer rates prior to the next regular general rate case proceeding by filing an advice letter. If such amounts are authorized for inclusion into customer rates, revenue would be recognized during the period in which authorization was made pursuant to FASB ASC Topic 605 and Sub-Topic 980-605 – "Revenue Recognition."

If the balancing or memorandum-type accounts had been recognized in San Jose Water Company's financial statements, San Jose Water Company's retained earnings would be decreased by the amount of surcredits in the case of over-collection or increased by the surcharges in the case of under-collection, less applicable taxes.

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

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

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

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

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

Liquidity and Capital Resources:

Cash Flow from Operations

During the six months ended June 30, 2010, SJW Corp. generated cash flow from operations of approximately \$22,100, compared to \$22,300 in 2009. Cash flow from operations is primarily generated by net income from its revenue producing activities, adjusted for non-cash expenses for depreciation and amortization, and deferred income taxes. The decrease in cash flow from operations of approximately \$200 was primarily due to a decrease in net income adjusted for non-cash items of \$1,600 offset by an increase in working capital and employee benefits of \$1,400. The increase in working capital and employee benefit uses were primarily due to an increase in accrued taxes and accrued payroll, offset by a decrease in accounts receivable, accrued unbilled utility revenue, accounts payable, purchased power and other current liabilities.

Cash Flow from Investing Activities

During the six months ended June 30, 2010, SJW Corp. used approximately \$38,500 of cash for company funded capital expenditures, \$1,700 for developer funded capital expenditures, and \$2,600 for acquisitions. This represented an increase in additions to utility plant of \$14,100 over the same period in 2009 due to greater capital expenditures offset by a decrease in acquisitions of \$1,100.

Water Utility Services' budgeted capital expenditures for 2010, exclusive of capital expenditures financed by customer contributions and advances, are \$70,016, of which approximately \$33,000 will be spent to replace the Water Utility Services' pipes and mains in 2010. Historically, amounts have been carried over from previous years' budgets. Approximately \$21,500 has been carried over from prior years for total forecasted 2010 capital expenditures of \$91,500. As of June 30, 2010, \$40,202 or 44% of the \$91,500 has been spent.

The Water Utility Services' capital expenditures are incurred in connection with normal upgrading and expansion of existing facilities and to comply with environmental regulations. Over the next five years, the Water Utility Services expects to incur approximately \$439,000 in capital expenditures, which includes replacement of pipes and mains, and maintaining water systems. Capital expenditures have the effect of increasing utility plant on which the Water Utility Services earns a return. The Water Utility Services actual capital expenditures may vary from their projections due to changes in the expected demand for services, weather patterns, actions by governmental agencies, and general economic conditions. Total additions to utility plant normally exceed company-financed additions as a result of new facilities construction funded with advances from developers and contributions in aid of construction.

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

As of June 30, 2010, the Water Utility Services' write-offs for uncollectible accounts represent less than 1% of its total revenue, unchanged from June 30, 2009. Management believes it can continue to collect its accounts receivable balances at its historical collection rate.

Cash Flow from Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2010 increased by approximately \$13,900 from the same period in the prior year. As the company has increased its needs for capital expenditures, funding for these has been made possible from a net increase in the line of credit this year and additional long-term borrowings, where in the prior year we made a net repayment on the line of credit and issued long-term debt. Long-term borrowings during the six months ended June 30, 2010 consists of \$50,000 in California Pollution Control Financing Authority Revenue Bonds, of which \$22,267 was released for general use with the remaining held as restricted cash pursuant to the terms of the loan agreement with the California Pollution Control Financing Authority. During the same period in the prior year, San Jose Water Company issued a total of \$30,000 in unsecured Senior Notes, \$10,000 in Series J and \$20,000 in Series K.

Sources of Capital:

San Jose Water Company's ability to finance future construction programs and sustain dividend payments depends on its ability to maintain or increase internally generated funds and attract external financing. The level of future earnings and the related cash flow from operations is dependent, in large part, upon the timing and outcome of regulatory proceedings.

San Jose Water Company's financing activity is designed to achieve a capital structure consistent with regulatory guidelines of approximately 50% debt and 50% equity (book value). As of June 30, 2010, San Jose Water Company's funded debt and equity were approximately 55% and 45%, respectively.

Company internally-generated funds, which include allowances for depreciation and deferred income taxes, have provided approximately 50% of the cash requirements for San Jose Water Company's capital expenditures. Funding for its future capital expenditure program is expected to be provided primarily through internally-generated funds, the issuance of new long-term debt, the issuance of equity or the sale of all or part of its investment in California Water Service Group, all of which will be consistent with the regulator's guidelines.

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

As of June 30, 2010, San Jose Water Company's funded debt was 55% of total capitalization and the net income available for interest charges was 328% of interest charges. As of June 30, 2010, San Jose Water Company did not have any restrictions in issuing future indebtedness as a result of these terms and conditions.

SJWTX, Inc.'s unsecured senior note agreement has SJW Corp. as a guarantor of the senior note which has terms and conditions that restrict SJW Corp. from issuing additional funded debt if: (1) the funded consolidated debt would exceed 66-2/3% of total capitalization, and (2) the minimum net worth of SJW Corp. becomes less than \$125,000 plus 30% of the Water Utility Services cumulative net income, since December 31, 2005. As of June 30, 2010, SJW Corp. did not have any restrictions in issuing any future indebtedness as a result of these terms and conditions.

SJW Corp. and its subsidiaries have available unsecured bank lines of credit, allowing aggregate short-term borrowings of up to \$85,000. These lines of credit bear interest at variable rates. They will expire on June 1, 2012. At June 30, 2010, the available unused short-term bank lines of credit was \$70,150. The cost of borrowing on unsecured bank lines of credit averaged 2% for the first six months of 2010. San Jose Water Company's unsecured bank line of credit has the following affirmative covenants: (1) the funded debt cannot exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-calendar-month period cannot be less than 225% of interest charges. As of June 30, 2010, San Jose Water Company's funded debt was 55% of total capitalization and the net income available for interest charges was 328% of interest charges. As of June 30, 2010, San Jose Water Company is in compliance with all covenants.

On June 9, 2010, San Jose Water Company entered into a loan agreement with the California Pollution Control Financing Authority (the "Authority"), under which the proceeds from the issuance by the Authority of its 5.10% fixed rate revenue bonds in an aggregate principal amount of \$50,000 will be loaned to San Jose Water Company. The loan proceeds will be used by San Jose Water Company to finance, among other things, (i) improvements to the structures and facilities integral to the supply of water throughout the water supply system owned by San Jose Water Company (the "Water System"), (ii) improvements to the distribution system, and (iii) the acquisition of equipment for the Water System, subject to certain conditions. The loan agreement contains affirmative and negative covenants customary for a loan agreement relating to revenue bonds, including, among other things, complying with certain disclosure obligations and covenants relating to the tax exempt status of the interest on the bonds and limitations and prohibitions relating to the transfer of the project funded by the loan proceeds. As of June 30, 2010, San Jose Water Company has borrowed an aggregate of \$50,000 under this loan agreement, of which \$22,267 has been released from restriction, and was in compliance with all covenants.

Results of Operations:

Overview

SJW Corp.'s consolidated net income for the three months ended June 30, 2010 was \$4,516, an increase of \$98, or approximately 2%, from \$4,418 in the second quarter of 2009. For the six months ended June 30, 2010, consolidated net income was \$5,501, an increase of \$967, or approximately 21%, from \$4,534 for the same period in 2009. The increase for the three and six months ended June 30, 2010 was primarily due to lower production costs as a result of increased surface water availability.

Operating Revenue

	Operating Revenue by Segment			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Water Utility Services	\$ 53,306	57,346	\$92,910	96,017
Real Estate Services	822	848	1,629	2,198
	<u>\$ 54,128</u>	<u>58,194</u>	<u>\$94,539</u>	<u>98,215</u>

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

	Three Months Ended		Six Months Ended	
	June 30, 2010 vs. 2009		June 30, 2010 vs. 2009	
	Increase/(decrease)		Increase/(decrease)	
Water Utility Services:				
Consumption changes	\$ (5,425)	(9)%	\$ (6,115)	(6)%
New customers increase	99	—	148	—
Rate increases	1,286	2%	2,860	3%
Real Estate Services	(26)	—	(569)	(1)%
	<u>\$ (4,066)</u>	<u>(7)%</u>	<u>\$ (3,676)</u>	<u>(4)%</u>

Operating Expense

	Operating Expense by Segment			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Water Utility Services	\$ 44,907	48,723	\$ 79,941	84,000
Real Estate Services	624	1,054	1,115	1,987
All Other	353	386	584	742
	<u>\$ 45,884</u>	<u>50,163</u>	<u>\$ 81,640</u>	<u>86,729</u>

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

	Three Months Ended June 30, 2010 vs. 2009		Six Months Ended June 30, 2010 vs. 2009	
	Increase/(decrease)		Increase/(decrease)	
Water production costs:				
Change in surface water supply	\$ (1,694)	(3)%	\$ (3,006)	(3)%
Change in usage and new customers	(3,356)	(7)%	(4,175)	(5)%
Purchased water and groundwater extraction charge and energy price increase	309	1%	797	1%
Total water production costs	(4,741)	(9)%	(6,384)	(7)%
Administrative and general	(214)	(1)%	(286)	—
Other operating expense	(23)	—	468	—
Maintenance	73	—	(67)	—
Property taxes and other non-income taxes	(332)	(1)%	(919)	(2)%
Depreciation and amortization	832	2%	1,392	2%
Income taxes	126	—	707	1%
	<u>\$ (4,279)</u>	<u>(9)%</u>	<u>\$ (5,089)</u>	<u>(6)%</u>

Water production costs

The decrease in water production costs was primarily attributable to an increase in the availability of surface water supply in addition to a decrease in usage due to conservation efforts called for by the Santa Clara Valley Water District. These decreases were partially offset by an increase in higher per unit costs paid for energy.

Sources of Water Supply

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010	2009	Increase/ (decrease)	% Change	2010	2009	Increase/ (decrease)	% Change
	Purchased water	5,934	6,532	(598)	(4)%	8,971	10,672	(1,701)
Groundwater	4,023	6,073	(2,050)	(15)%	7,239	9,334	(2,095)	(10)%
Surface water	1,844	944	900	6%	3,255	1,634	1,621	8%
Reclaimed water	108	155	(47)	—	133	168	(35)	—
	<u>11,909</u>	<u>13,704</u>	<u>(1,795)</u>	<u>(13)%</u>	<u>19,598</u>	<u>21,808</u>	<u>(2,210)</u>	<u>(10)%</u>

The changes in the source of supply mix were consistent with the changes in the water production costs.

Operating expenses, excluding water production costs and income taxes, increased \$336 for the three months ended June 30, 2010 compared to the three months ended June 30, 2009. The increase was primarily attributable to an increase of \$832 in depreciation expense due to increased depreciable assets and \$73 in maintenance expenses. These increases were offset by a \$332 decrease in taxes other than income taxes and \$237 in all other expenses. In 2009, we incurred additional property tax expense as a result of a tenant bankruptcy. Income tax expense increased for the three months ended June 30, 2010 as a result of higher pre-tax income.

Operating expenses, excluding water production costs and income taxes, increased \$588 for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. The increase was primarily attributable to an increase of \$1,392 in depreciation expense due to increased depreciable assets and \$468 in other expenses. These increases were offset by a \$919 decrease in taxes other than income taxes and \$353 in all other expenses. In 2009, we incurred additional property tax expense as a result of a tenant bankruptcy. Income tax expense increased for the six months ending June 30, 2010 as a result of higher pre-tax income.

The change in other comprehensive income/(loss) for the three and six months ended June 30, 2010 and 2009 was due to the changes in market value of the investment in California Water Service Group.

Water Supply

San Jose Water Company's water supply consists of groundwater from wells, surface water from watershed run-off and diversion, and imported water purchased from the Santa Clara Valley Water District ("SCVWD") under the terms of a master contract with SCVWD expiring in 2051.

On June 28, 2010, SCVWD's 10 reservoirs were approximately 69% full with 116,279 acre-feet of water in storage. The rainfall from July 1, 2009 to June 28, 2010 was approximately 121% of the seasonal average to date. In addition, the rainfall at San Jose Water Company's Lake Elsman was measured at 58.53 inches for the period from July 1, 2009 through June 30, 2010, which is approximately 132% of the five-year average. Local surface water is a less costly source of water than groundwater or purchased water and its availability significantly impacts San Jose Water Company's results of operations. San Jose Water Company believes that its various sources of water supply will be sufficient to meet customer demand in 2010.

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

On March 24, 2009, the SCVWD board of directors unanimously passed a resolution calling for a mandatory 15% reduction in water use, which had been extended through June 2010. To effect water restrictions, SCVWD must work with other political subdivisions that possess the authority to enact and enforce drought ordinances in order to effect such restrictions. San Jose Water Company worked with the CPUC to develop its water conservation plan to comply with the call for a 15% reduction in water use. The CPUC approved the plan, which became effective on August 12, 2009 and remained in effect through June 2010.

On June 15, 2010, the SCVWD board of directors passed a motion of intent to adopt a resolution calling for a three-month, 10% mandatory water conservation through September 30, 2010; and direct staff to bring back a special Board work study session, to include retailers and municipalities, to discuss tiered rates and the effect on water conservation. On July 13, 2010, the SCVWD board of directors passed and adopted this resolution.

CLWSC's water supply consists of groundwater from wells and purchased raw water from the Guadalupe-Blanco River Authority ("GBRA"). CLWSC has long-term agreements with GBRA, which expire in 2040, 2044 and 2050. The agreements provide CLWSC with 6,700 acre-feet of water per year from Canyon Lake at prices to be adjusted periodically by GBRA.

Regulatory Affairs

Almost all of the operating revenue of San Jose Water Company results from the sale of water at rates authorized by the CPUC. The CPUC sets rates that are intended to provide revenue sufficient to recover operating expenses and produce a specified return on common equity. The timing of rate decisions could have an impact on the results of operations.

On November 20, 2009, the CPUC approved the most recent general rate increase for San Jose Water Company. In summary, the decision authorizes a rate increase designed to increase revenue by \$18,597 or 9.24% in 2010. In accordance with CPUC rules, the subsequent increases for the years 2011 and 2012 will be based upon the consumer price indices published in October of the preceding year. Best estimates of these increases at that time were \$7,558 or 3.43% in 2011, and \$11,088 or 4.87% in 2012. These rate increases are designed to produce a return on common equity of 10.13%, which is comparable with recent authorized returns for water utilities in California. The stated revenue increases for 2010 through 2012 do not include additional authorized increases associated with scheduled expense and rate base offset filings, rate recovery of planned upgrades to the Montevina Treatment Plant, and the potential supplemental filings for rate recovery of investments in alternative energy projects. The new rates for 2010 became effective January 1, 2010.

On April 2, 2010, San Jose Water Company filed an application with the CPUC requesting authorization to increase the annual revenue requirement by \$80 or about 0.03% and to increase rates proportionately. This increase is necessary in order to support an annual increase of about \$410 in the capital budget for meter replacement, in order to comply with the requirements of the Commission's General Order No. 103. If approved, the rate change should become effective sometime in the fourth quarter of 2010.

On June 2, 2010, San Jose Water Company filed an advice letter with the CPUC requesting authorization to increase revenues by \$5,740 or approximately 2.61%. This increase is intended to recover the accumulated balance in the Mandatory Conservation Revenue Adjustment Memorandum Account ("MCRAM"), which covered the period from August 3, 2009 to May 1, 2010. The CPUC authorized San Jose Water Company to establish a MCRAM to track the revenue impact of mandatory conservation upon San Jose Water Company's quantity revenue resulting from mandatory conservation instituted by Santa Clara Valley Water District. As directed by the CPUC's Water Division, any revenue increase would be recovered via a surcharge on the existing quantity rate for a period of twelve months following final approval by the CPUC. All revenue would be recognized immediately after final approval by the CPUC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SJW Corp. is subject to market risks in the normal course of business, including changes in interest rates, pension plan asset values, and equity prices. The exposure to changes in interest rates can result from the issuance of debt and short-term funds obtained through the Company's variable rate line of credit. SJW Corp. also owns 1,099,952 shares of common stock of California Water Service Group, which is listed on the NY Stock Exchange, and is therefore exposed to the risk of fluctuations and changes in equity prices.

SJW Corp. has no material derivative financial instruments, financial instruments with significant off-balance sheet risks, or financial instruments with concentrations of credit risk. There is no material sensitivity to changes in market rates and prices.

ITEM 4. CONTROLS AND PROCEDURES

SJW Corp.'s management, with the participation of SJW Corp.'s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of SJW Corp.'s disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that SJW Corp.'s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or "the Act") as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by SJW Corp. in the reports that it files or submits under the Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. SJW Corp. believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There has been no change in internal control over financial reporting during the second fiscal quarter of 2010 that has materially affected, or is reasonably likely to materially affect, the internal controls over financial reporting of SJW Corp.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

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

ITEM 5. OTHER INFORMATION

On July 28, 2010, the Board of Directors of SJW Corp. declared the regular quarterly dividend of \$0.17 per share of common stock. The dividend will be paid September 1, 2010 to shareholders of record as of the close of business on August 9, 2010.

ITEM 6. EXHIBITS

See Exhibit Index located immediately following the Certification of this document, which is incorporated herein by reference as required to be filed by Item 601 of Regulation S-K for the quarter ended June 30, 2010.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SJW CORP.

DATE: August 6, 2010

By /s/ DAVID A. GREEN

David A. Green
Chief Financial Officer and Treasurer
(Principal financial officer)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
4.1	Indenture dated as of June 1, 2010 between San Jose Water Company and Wells Fargo Bank, National Association. (1)
10.1	Credit Agreement dated as of May 27, 2010 by and between SJW Corp., SJW Land Company and Wells Fargo Bank, National Association. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 28, 2010.
10.2	Credit Agreement dated May 27, 2010 by and between San Jose Water Company and Wells Fargo Bank, National Association. Incorporated by reference to Exhibit 10.2 to Form 8-K filed on May 28, 2010.
10.3	Loan Agreement dated as of June 1, 2010 between the California Pollution Control Financing Authority and San Jose Water Company. (1)
10.4	Bond Purchase Agreement dated June 9, 2010 among Goldman, Sachs & Co., the Treasurer of the State of California and the California Pollution Control Financing Authority and approved by San Jose Water Company. (1)
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) by President and Chief Executive Officer. (1)
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chief Financial Officer and Treasurer. (1)
32.1	Certification Pursuant to 18 U.S.C. Section 1350 by President and Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)
32.2	Certification Pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer and Treasurer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)

(1) Filed currently herewith.

CALIFORNIA POLLUTION CONTROL
FINANCING AUTHORITY

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,
TRUSTEE

INDENTURE

Dated as of June 1, 2010

RELATING TO

\$50,000,000

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
REVENUE BONDS
(SAN JOSE WATER COMPANY PROJECT)
SERIES 2010A

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THIS INDENTURE, made and entered into as of June 1, 2010, by and between the CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY, a public instrumentality and political subdivision of the State of California (the "Authority"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized and existing under and by virtue of the laws of the United States of America, having a Corporate Trust Office in San Francisco, California, and being qualified to accept and administer the trusts hereby created (the "Trustee");

WITNESSETH:

WHEREAS, the Authority is a public instrumentality and political subdivision of the State of California, created by the California Pollution Control Financing Authority Act (Chapter 1 (commencing with Section 44500) of Division 27 of the California Health and Safety Code), as supplemented and amended (the "Act"), and authorized to finance the acquisition, construction, renovation, installation, improvement and equipping of water facilities constituting a "project" within the meaning of the Act, including those that will prevent the pollution of drinking water or improve the quality of water or ensure the safe handling, recycling or disposal of materials that might otherwise be improperly disposed of; and

WHEREAS, San Jose Water Company, a California corporation (the "Borrower"), has duly caused an application to be filed with the Authority for financial assistance to finance the acquisition, construction, renovation, installation, improvement and equipping of certain water facilities that will prevent the pollution of drinking water or improve the quality of water or ensure the safe handling, recycling or disposal of materials that might otherwise be improperly disposed of, in the Cities of Cupertino, San Jose, Santa Clara, Campbell, Monte Sereno, Saratoga and Los Gatos and contiguous areas in the County of Santa Clara, California, as more particularly described in Exhibit A to the Loan Agreement (as defined herein) (the "Project"); and

WHEREAS, the Authority, after due review of the Borrower's application and deliberation, has adopted a resolution approving the issuance of bonds to finance the Project for the Borrower; and

WHEREAS, the Authority has authorized the issuance of its Revenue Bonds (San Jose Water Company Project) Series 2010A (the "Bonds") pursuant to this Indenture to finance the Project; and

WHEREAS, the Authority has authorized the execution and delivery of this Indenture to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof, premium, if any and interest thereon; and

WHEREAS, the Authority is financing the cost of acquisition, construction, renovation, installation, improvement and equipping of the Project by loaning the proceeds derived from the sale of the Bonds to the Borrower pursuant to the Loan Agreement, which requires the Borrower to make loan payments sufficient to pay the principal of, premium, if any, and interest on, the Bonds and related expenses; and

WHEREAS, it has been determined that the estimated amount necessary to finance the cost of the Project requires the issuance, sale and delivery of the Bonds in the aggregate amount of \$50,000,000 as hereinafter provided; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal limited obligations of the Authority, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized; and

WHEREAS, Bonds issued under this Indenture will be secured by a pledge and assignment of certain rights under the Loan Agreement;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of, premium, if any, and the interest on, all Bonds at any time issued and outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Holders (as defined herein) thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee, for the equal and proportionate benefit of the respective Holders from time to time of the Bonds, as follows:

**ARTICLE I
DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS**

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Article shall, for all purposes of this Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Unless otherwise defined in this Indenture, all terms used herein shall have the meanings assigned to such terms in the Act.

Accountant

“Accountant” means any firm of nationally-recognized independent certified public accountants selected by the Borrower.

Act

“Act” means the California Pollution Control Financing Authority Act (Chapter 1 (commencing with Section 44500) of Division 27 of the California Health and Safety Code), as now in effect and as it may from time to time hereafter be amended or supplemented.

Additional Funded Debt

“Additional Funded Debt” means of the Borrower means as of the date of any determination thereof, the greater of (i) the amount, if any, by which the aggregate amount of all unsecured Current Debt of the Borrower then outstanding to the Corporation or its subsidiaries exceeds 15% of Consolidated Net Worth, or (ii) the amount, if any, by which the aggregate amount of all unsecured Current Debt of the Borrower then outstanding under a bank credit facility or to the Corporation or its subsidiaries exceeds 30% of Consolidated Net Worth.

Additional Payments

“Additional Payments” means the payments required to be made by the Borrower pursuant to Sections 4.2(b), (c) and (d) of the Agreement (including any interest required to be paid by the Borrower on such payments pursuant to Section 4.2(e) of the Agreement) and Sections 6.2(c), 6.3, 8.2 and 8.3 of the Agreement.

Administrative Fees and Expenses

“Administrative Fees and Expenses” means the reasonable and necessary expenses incurred by the Authority pursuant to the Loan Agreement or this Indenture and the compensation and expenses paid to or incurred by the Trustee, the Bond Registrar and/or any Paying Agent under the Loan Agreement or this Indenture, which include but are not limited to printing of Bonds, accomplishing transfers or new registration of Bonds, or other charges and other disbursements including those of their respective officers, directors, members, attorneys, agents and employees incurred in and about the administration and execution of the Loan Agreement and this Indenture.

Agreement or Loan Agreement

“Agreement” or “Loan Agreement” means that certain loan agreement by and between the Authority and the Borrower, dated as of June 1, 2010, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of this Indenture.

Approving Opinion

“Approving Opinion” means an opinion of Bond Counsel (addressed and delivered to the Authority and the Trustee) that an action being taken (i) is authorized by the Act and this Indenture and complies with the terms of the Agreement, if applicable, and (ii) will not, in and of itself, adversely affect the Tax-exempt status of the Bonds.

Authority

“Authority” means the California Pollution Control Financing Authority created pursuant to, and as defined in, the Act.

Authorized Denomination

“Authorized Denomination” means \$5,000 or any integral multiple thereof.

Authorized Representative

“Authorized Representative” means with respect to the Borrower, each individual at the time designated to act on behalf of the Borrower by a written certificate signed by the Borrower, furnished to the Trustee and the Authority and containing the specimen signature of each such individual. With respect to the Authority, “Authorized Representative” shall mean any of the Executive Director of the Authority and any individual or individuals at the time designated to act on behalf of the Authority by a written certificate signed by the Executive Director of the Authority, furnished to the Trustee and the Borrower and containing the specimen signature of each such individual.

Beneficial Owners

“Beneficial Owners” means those individuals, partnerships, corporations or other entities for whom the Direct Participants have caused DTC to hold Book-Entry Bonds.

Bond Counsel

“Bond Counsel” means any attorney at law or firm of attorneys of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, duly admitted to practice law before the highest court of any state of the United States of America, and acceptable to the Authority, but shall not include counsel for the Borrower.

Bondholder

See “Holder.”

Bond Registrar or Registrar

“Bond Registrar” or “Registrar” means the entity or entities performing the duties of the bond registrar pursuant to Section 2.08 hereof.

Bonds or Bond

“Bonds” or “Bond” means all revenue bonds of the Authority authorized by and at any time Outstanding pursuant hereto and executed, issued and delivered in accordance with Section 2.02 hereof.

Book-Entry Bonds

“Book-Entry Bonds” means the Bonds registered in the name of the nominee of DTC, or any successor securities depository for such Bonds, as the registered owner thereof pursuant to the terms and provisions of Section 2.11 hereof.

Borrower

“Borrower” means San Jose Water Company, a corporation organized and existing under the laws of the State of California, or any entity which is the surviving, resulting or transferee entity in any merger, consolidation or transfer of assets permitted under Section 5.2 of the Agreement and also means, unless the context otherwise requires, an assignee of the Agreement as permitted by Section 5.2 of the Agreement, but does not mean any affiliate of the Borrower.

Borrower Account

“Borrower Account” means all of the accounts by that name established pursuant to Section 3.04 hereof.

Business Day

“Business Day” means any day other than (i) a Saturday, Sunday or legal holiday in the State of California, (ii) a day on which commercial banks in New York, New York or the city or cities in which the Corporate Trust Office of the Trustee is located are authorized or required by law to close, or (iii) a day on which the New York Stock Exchange is closed.

Capitalized Leases

“Capitalized Leases” means any lease the obligation for Rentals with respect to which is required to be capitalized on a balance sheet of the lessee in accordance with generally accepted accounting principles.

Capitalized Rentals

“Capitalized Rentals” of any Person means 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 in accordance with generally accepted accounting principles.

Certificate, Statement, Request, Requisition or Order of the Authority or the Borrower

“Certificate,” “Statement,” “Request,” “Requisition” or “Order” of the Authority or the Borrower mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by its Chairman, Executive Director or such other individual as may be designated and authorized to sign for the Authority, or in the name of the Borrower by an Authorized Representative of the Borrower. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.02 hereof, each such instrument shall include the statements provided for in Section 1.02 hereof.

Code

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

Completion Date

“Completion Date” means the date of completion of the Project as that date shall be certified as provided in Section 3.3 of the Agreement.

Consolidated Funded Debt

“Consolidated Funded Debt” means all Funded Debt of the Borrower and its Restricted Subsidiaries, determined on a consolidated basis eliminating intercompany items.

Consolidated Net Income

“Consolidated Net Income” means for any period means the gross revenues of the Borrower and its Restricted Subsidiaries for such period less all expenses and other proper charges (including taxes on income), determined on a consolidated basis after eliminating earnings or losses attributable to outstanding Minority Interests, but excluding in any event:

- (a) any gains or losses on the sale or other disposition of Investments or fixed or capital assets, and any taxes on such excluded gains and any tax deductions or credits on account of any such excluded losses;
- (b) the proceeds of any life insurance policy;
- (c) net earnings and losses of any Restricted Subsidiary accrued prior to the date it became a Restricted Subsidiary;
- (d) net earnings and losses of any corporation (other than a Restricted Subsidiary), substantially all the assets of which have been acquired in any manner by the Borrower or any Restricted Subsidiary, realized by such corporation prior to the date of such acquisition;
- (e) net earnings and losses of any corporation (other than a Restricted Subsidiary) with which the Borrower or a Restricted Subsidiary shall have consolidated or which shall have merged into or with the Borrower or a Restricted Subsidiary prior to the date of such consolidation or merger;
- (f) net earnings of any business entity (other than a Restricted Subsidiary) in which the Borrower or any Restricted Subsidiary has an ownership interest unless such net earnings shall have actually been received by the Borrower or such Restricted Subsidiary in the form of cash distributions;
- (g) any portion of the net earnings of any Restricted Subsidiary which for any reason is unavailable for payment of dividends to the Borrower or any other Restricted Subsidiary;
- (h) earnings resulting from any reappraisal, revaluation or write-up of assets;
- (i) any deferred or other credit representing any excess of the equity in any Subsidiary at the date of acquisition thereof over the amount invested in such Subsidiary;
- (j) any gain arising from the acquisition of any Securities of the Borrower or any Restricted Subsidiary; and

(k) any reversal of any contingency reserve, except to the extent that provision for such contingency reserve shall have been made from income arising during such period.

Consolidated Net Income Available for Interest Charges

“Consolidated Net Income Available for Interest Charges” for any period means: (1) Consolidated net Income, plus (2) the sum of (i) State, federal or local taxes measured by income and excess profits taxes paid or accrued by the Borrower and its Restricted Subsidiaries on account of such Consolidated Net Income during said period plus (ii) all Interest Charges of the Borrower and its Restricted Subsidiaries for said period (but only to the extent deducted in computing Consolidated Net Income for said period).

Consolidated Net Worth

“Consolidated Net Worth” means as of any date the aggregate amount of the capital stock accounts (less treasury stock), retained earnings and surplus of the Borrower and its Restricted Subsidiaries after deducting Minority Interests to the extent included in the capital stock accounts of the Borrower, all as determined on a consolidated basis for the Borrower and its Restricted Subsidiaries.

Corporate Trust Office

“Corporate Trust Office” means with respect to the Trustee, the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office at the date hereof is located in San Francisco, California; provided, however, that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

Corporation

“Corporation” means SJW Corp., a California corporation which is the parent company of the Borrower, and any person who succeeds to all or substantially all of the assets and business of SJW Corp.

Costs of Issuance

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Borrower and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee, underwriting fees, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee incurred in connection with the original issuance of the Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

Costs of Issuance Fund

“Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.04 hereof.

Costs of the Project

“Costs of the Project” means the sum of the items, or any such item, authorized to be paid from the Project Fund pursuant to the provisions of Section 3.2 of the Agreement, but shall not include any Costs of Issuance.

Current Debt

“Current Debt” of any Person means (i) all Indebtedness of such Person for borrowed money payable on demand or in less than one year and (ii) all Guaranties by such Person of Current Debt of others; provided that in the determination of Current Debt of the Borrower or any Restricted Subsidiary, there shall be excluded any Indebtedness for Ordinary Course Deposits.

Date of Delivery

“Date of Delivery” means June 16, 2010, the date of initial issuance and delivery of the Bonds.

Default Rate

“Default Rate” means seven percent (7.0%) per annum or, if seven percent (7.0%) is greater than the rate then permitted by law, at the maximum rate so permitted.

Determination of Taxability

“Determination of Taxability” means the occurrence or existence of any of the conditions or events more fully described in Section 7.3(b) of the Loan Agreement.

Direct Participants

“Direct Participants” means those broker-dealers, banks and other financial institutions from time to time for which DTC holds the Bonds as securities depository.

DTC

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the New York Banking Law, or any successor securities depository for the Bonds.

Environmental Regulations

“Environmental Regulations” means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances, chemical waste, materials or substances.

Event of Default

“Event of Default” means any of the events specified in Section 7.01 hereof.

Fiscal Year

“Fiscal Year” means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month, or fifty-two week, period hereafter selected and designated as the official fiscal year period of the Borrower.

Fitch

“Fitch” means Fitch, Inc. a corporation organized and existing under the laws of the State of Delaware, doing business as Fitch Ratings, its successors and their assigns, or, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody’s) designated by the Authority, with the approval of the Borrower, by notice to the Trustee.

Funded Debt

“Funded Debt” of any Person means (i) all Indebtedness of such Person for borrowed money or which has 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 generally accepted accounting principles, (ii) all Capitalized Rentals of such Person, (iii) all Guaranties by such Person of Funded Debt of others and (iv) for purposes of calculating compliance with Section 5.2(a)(iii)(C)(x) of the Loan Agreement and the definitions contained therein, Funded Debt of the Borrower shall include all Additional Funded Debt of the Borrower; provided that in the determination of Funded Debt of the Borrower or any Restricted Subsidiary, there shall be excluded any Indebtedness for Ordinary Course Deposits.

Governmental Obligation

“Governmental Obligation” means a bond, note or other evidence of indebtedness issued by the State or any agency or political subdivision of the State, which is described by Sections 103 and 141-150 of the Code.

Guaranties

“Guaranties” by any Person means all obligations (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing, or in effect guaranteeing, any Indebtedness, dividend or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, including, without limitation, all obligations incurred through an agreement, contingent or otherwise, by such Person: (i) to purchase such Indebtedness or obligation or any property or assets constituting security

therefore, (ii) to advance or supply funds (x) for the purchase or payment of such Indebtedness or obligation, (y) to maintain working capital or other balance sheet condition or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation, (iii) to lease property or to purchase Securities or other property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the primary obligor to make payment of the Indebtedness or obligation, or (iv) otherwise to assure the owner of the Indebtedness or obligation of the primary obligor against loss in respect thereof. For the purpose of all computations made, a Guaranty in respect of any Indebtedness for borrowed money which has been guaranteed, and a Guaranty in respect of any other obligation or liability or any dividend shall be deemed to be Indebtedness equal to the maximum aggregate amount of such obligations, liability or dividend.

Guarantor

“Guarantor” means any Person that has guaranteed the obligations of the Borrower under the Agreement.

Hazardous Substances

“Hazardous Substances” means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Project or to persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety Code §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety Code §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

Holder or Bondholder or Owner

“Holder” or “Bondholder,” or “Owner,” whenever used herein with respect to a Bond, means the Person in whose name such Bond is registered.

Indebtedness

“Indebtedness” of any Person means and includes all obligations of such Person which in accordance with generally accepted accounting principles 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 borrower 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. For the purpose of computing the “Indebtedness” of any Person, there shall be excluded any particular Indebtedness to the extent that, upon or prior to the maturity thereof, there shall have been deposited with the proper depository in trust the necessary funds (or evidences of such Indebtedness, if permitted by the instrument creating such Indebtedness) for the payment, redemption or satisfaction of such Indebtedness; and thereafter such funds and evidences of Indebtedness so deposited shall not be included in any computation of the liabilities of such Person.

Indenture

“Indenture” means this Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Information Services

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10006; Moody’s “Mergent/FIS, Inc.,” 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bonds Department; the Municipal Securities Rulemaking Board c/o Electronic Municipal Market Access at www.emma.msrb.org; and Standard and Poor’s “Called Bond Record,” 55 Water Street, New York, NY 10041; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds, or no such services, as the Authority may indicate in a Certificate of the Authority delivered to the Trustee.

Interest Account

“Interest Account” means the account by that name in the Revenue Fund established pursuant to Section 5.02 hereof.

Interest Charges

“Interest Charges” of any Person with respect to any Indebtedness thereof for any period means all interest charges (including amortization of debt discount or amounts imputed as interest of any Indebtedness in accordance with sound accounting practice) paid, payable or

accruing in respect of such Indebtedness for such period; provided that if the interest charges on such Indebtedness are to be determined for any period commencing after the date of computation, then in the case of any Indebtedness evidenced by an obligation bearing interest at a variable rate or at different fixed rates, or any obligation on which interest does not begin to accrue at the date of computation of Interest Charges, or any obligation on which interest does not become payable until a specified date more than one year after the date of computation, the interest charges attributable to such obligation shall be calculated on the basis of the greater of (i) the rate payable on such obligation on the date of computation and (ii) the average interest rate payable on all Funded Debt of such Person during the three-month period immediately preceding the date of computation.

Interest Payment Date

“Interest Payment Date” means June 1 and December 1 of each year, commencing December 1, 2010.

Interest Period

“Interest Period” means the period from and including any Interest Payment Date to and including the day immediately preceding the next following Interest Payment Date, except that the first Interest Period shall be the period from and including the date of the first authentication and delivery of the Bonds to and including the day immediately preceding the first Interest Payment Date relating to such Bonds.

Investment Securities

“Investment Securities” means any of the following securities (other than those issued by the Authority, the Borrower or any Guarantor):

(i) Investments in direct obligations of the United States of America or any agency or instrumentality of the United States of America, the payment or guarantee of which constitutes a full faith and credit obligation of the United States of America;

(ii) Investments in certificates of deposit maturing within one year from the date of acquisition thereof, issued by a bank or trust company organized under the laws of the United States or any state thereof, having capital, surplus and undivided profits aggregating at least \$200,000,000 and whose long-term certificates of deposit are, at the time of acquisition thereof, rated “A” or better by S&P or “A2” or better by Moody’s;

(iii) Investments in commercial paper maturing in 270 days or less from the date of issuance which, at the time of acquisition by the Borrower, is accorded the highest rating by S&P or Moody’s or is issued by a corporation organized under the laws of the United States or any state thereof with outstanding corporate debt obligations which are rated “AA” or better by S&P, or “Aa2” or better by Moody’s; and

(iv) Investments in (i) money market funds, (ii) mutual funds invested primarily in corporate debt obligations which are rated “AA” or better by S&P or “Aa2” or better by Moody’s, or preferred stock of any such Person; provided that in no event shall (x) any such corporate debt obligations held outside a mutual fund be in the form of adjustable or variable rate securities and (y) more than 5% of the assets of any such mutual fund be in the form of adjustable or variable rate securities.

Investments

“Investments” means all investments, in cash or by delivery of property made, directly or indirectly in any Person, whether by acquisition of shares of capital stock, indebtedness or other obligations or Securities or by loan, advance capital contribution or otherwise; provided, however, that “Investments” shall not mean or include routine investments in property to be used or consumed in the ordinary course of business.

Lien

“Lien” means any interest in property securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on the common law, statute or contract, and including but not limited to the security interest lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes, but, excluding in the case of the Borrower or any Restricted Subsidiary, rights, reserved to or vested in any municipality or public authority as an incident of any franchise, grant, license or permit of the Borrower or any Restricted Subsidiary, as the case may be, whether by the terms of any franchise, grant, license or permit or provision of law or otherwise. The term “Lien” shall include reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances (including, with respect to stock, stockholder agreements, voting trust agreements, buyback agreements and all similar arrangements) affecting property. For the purposes of this definition, the Borrower or a Restricted Subsidiary shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement, Capitalized Lease or other arrangement pursuant to which title to the property has been retained by or vested in some other Person for security purposes and such retention or vesting shall constitute a Lien.

Loan Default Event

“Loan Default Event” means any one or more of the events specified in Section 7.1 of the Agreement.

Loan Repayments

“Loan Repayments” means the payments so designated and required to be made by the Borrower pursuant to Section 4.2 of the Agreement.

Minority Interests

“Minority Interests” means any shares of stock of any class of a Restricted Subsidiary (other than directors’ qualifying shares as required by law) that are not owned by the Borrower and/or one or more of its Restricted Subsidiaries. Minority Interests shall be valued by valuing Minority Interests constituting preferred stock at the voluntary or involuntary liquidating value of such preferred stock, whichever is greater, and by valuing Minority Interest constituting common stock at the book value of capital and surplus applicable thereto adjusted, if necessary, to reflect any changes from the book value of such common stock required by the foregoing method of valuing Minority Interests in preferred stock.

Moody's

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Fitch) designated by the Authority, with the approval of the Borrower, by notice to the Trustee.

Opinion of Counsel

"Opinion of Counsel" means a written opinion (addressed and delivered to the Authority and the Trustee) of counsel (who may be counsel for the Authority) selected by the Authority. If and to the extent required by the provisions of Section 1.02 hereof, each Opinion of Counsel shall include the statements provided for in Section 1.02 hereof.

Ordinary Course Deposits

"Ordinary Course Deposits" means in the case of the Borrower or any Restricted Subsidiary any deposits or advances received by the Borrower or such Restricted Subsidiary, as the case may be (whether shown on the Borrower's balance sheet as advances for construction, contributions in aid of construction, or otherwise), in the ordinary course of its business from customers, consumers, property developers or other Persons if, in each case, such deposits or advances were made in accordance with customary practices of the utility industry in existence at such time or pursuant to regulatory authority.

Outstanding

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.10 hereof) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which liability of the Authority shall have been discharged in accordance with Section 10.02 hereof, including Bonds (or portions of Bonds) referred to in Section 11.10 hereof; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

Owner

See "Holder."

Participating Affiliate

“Participating Affiliate” means, with respect to the Borrower, each Person (i) that directly or indirectly, through one or more intermediaries or other Persons, controls, or is controlled by, or is under common control with, the Borrower, and (ii) that is itself, or with its affiliates described in clause (i), a “participating party” within the meaning of the Act. For purposes of this definition, a “Person” who is an individual includes the spouse, children or parents of such Person (collectively, “relatives”), and includes any trust of which such Person or his or her relatives is the trustee or a beneficiary. For the purpose of this definition, the “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of a majority of voting securities or membership interests, as trustee, by contract or otherwise.

Paying Agent

“Paying Agent” means the Paying Agent described in Section 8.07 hereof.

Person

“Person” means an individual, corporation, firm, association, limited liability company, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Principal Account

“Principal Account” means the account by that name in the Revenue Fund established pursuant to Section 5.02.

Principal Payment Date

“Principal Payment Date” means June 1, 2040.

Proceeds Account

“Proceeds Account” means all of the accounts by that name established pursuant to Section 3.04 hereof.

Pro Forma Interest Charges

“Pro Forma Interest Charges” means, as of the date of any determination thereof, the sum of Interest Charges with respect to all Funded Debt of the Borrower and its Restricted Subsidiaries (other than Funded Debt to be retired concurrently with the issuance of the Funded Debt then to be issued) for the twelve full consecutive calendar months immediately following such date of determination, determined on a pro forma basis, including, Interest Charges on all Funded Debt then to be issued; provided, that if Funded Debt of the Borrower includes Additional Funded Debt of the Borrower, the Interest Charges for such Additional Funded Debt shall be based upon the rate then payable under the bank credit facility; provided further that if the unsecured debt of the Borrower to the Corporation or its subsidiaries exceeds the Borrower’s unsecured debt under the bank credit facility at the time of reference, the Interest Charges shall be based upon the rate then payable on such unsecured debt to the Corporation or its subsidiaries.

Project

“Project” means the project described in Exhibit A to the Agreement, and as it may be amended pursuant to the terms of the Agreement.

Project Fund

“Project Fund” means the fund by that name established pursuant to Section 3.03 hereof.

Rating Agency

“Rating Agency” means Moody’s, if Moody’s is then rating the Bonds, S&P, if S&P is then rating the Bonds and/or Fitch, if Fitch is then rating the Bonds, or such other nationally-recognized rating agency then rating the Bonds.

Rebate Fund

“Rebate Fund” means the fund by that name created pursuant to Section 5.05 hereof.

Rebate Instructions

“Rebate Instructions” means those calculations and directions required to be delivered to the Trustee and, if requested, the Authority by the Borrower under the Tax Certificate.

Rebate Requirement

“Rebate Requirement” means the Rebate Requirement defined in the Tax Certificate.

Record Date

“Record Date” means the day, whether or not a Business Day, which is the fifteenth day of the month prior to an Interest Payment Date.

Redemption Account

“Redemption Account” means the account by that name established in the Revenue Fund pursuant to Section 5.02 hereof.

Rentals

“Rentals” means 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 the Borrower or a Restricted Subsidiary, as lessee or sublessee under a lease of real or personal property, but shall be exclusive of any amounts required to be paid by the Borrower or a Restricted Subsidiary (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.

Restricted Subsidiary

“Restricted Subsidiary” means any Subsidiary (i) which is organized under the laws of the United States or any state thereof; (ii) which conducts substantially all of its business and has substantially all of its assets within the United States; and (iii) of which more than 80% (by number of votes) of the Voting Stock is beneficially owned by the Borrower and/or one or more Restricted Subsidiaries.

Retained Rights

“Retained Rights” means the right of the Authority to receive certain payments, if any, with respect to fees, expenses and indemnification under the Loan Agreement, or to enforce its rights under Sections 3.1, 4.2(b), 4.2(c), 4.2(d), 6.2(c), 6.3, 8.2 and 8.3 of the Loan Agreement and the rights expressly granted to the Authority under the Loan Agreement to indemnification, inspection, consent and receipt of certificates, notices and opinions.

Revenue Fund

“Revenue Fund” means the fund by that name established pursuant to Section 5.01.

Revenues

“Revenues” means all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments, any late charges, and paid from whatever source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Indenture (except as provided below), but not including Additional Payments, including without limitation any Administrative Fees and Expenses, or any moneys paid for deposit into the Rebate Fund or the Borrower Account of the Costs of Issuance Fund and investment earnings on any moneys held in such account(s) or Fund.

S&P

“S&P” means Standard & Poor’s Ratings Group, a division of The McGraw-Hill Companies, Inc., its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody’s or Fitch) designated by the Authority, with the approval of the Borrower, by notice to the Trustee.

Securities Depositories

“Securities Depositories” means the following registered securities depositories: The Depository Trust Company, 55 Water Street, New York, New York 10041-0099 (for notices of redemption – Attn: Call Notification Department, Redemption Notice Enclosed, Fax-(212) 855-7232, 7233, 7234 or 7235; for notices of tender – Attn: Put Bonds Unit, Put Notice Enclosed, Fax-(212) 855-5235); or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such depositories, as the Authority may indicate in a Certificate of the Authority delivered to the Trustee.

Security

“Security” shall have the same meaning as in Section 2(l) of the Securities Act of 1933, as amended.

State

“State” means the State of California.

Subsidiary

“Subsidiary” means a subsidiary of the Borrower. The term “subsidiary” means, as to any particular parent corporation, any corporation of which more than 50% (by number of votes) of the Voting Stock shall be beneficially owned, directly or indirectly, by such parent corporation.

Supplemental Indenture

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

Surplus Account

“Surplus Account” means the account established within the Revenue Fund pursuant to Section 3.03 hereof.

Tax Certificate

“Tax Certificate” means the Tax Certificate and Agreement of the Borrower and the Authority dated the Date of Delivery.

Tax-exempt

“Tax-exempt” means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from gross income for federal income tax purposes (other than in the case of a Holder of any Bonds who is a substantial user of any component of the Project or a related person within the meaning of Section 147(a) of the Code) whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

Total Capitalization

“Total Capitalization” means as of any date the sum of (i) Consolidated Net Worth plus (ii) Consolidated Funded Debt.

Trustee

“Trustee” means Wells Fargo Bank, National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, having Corporate Trust Offices in San Francisco, California, or its successor as Trustee hereunder as provided in Section 8.01.

Voting Stock

“Voting Stock” means Securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or Persons performing similar functions).

SECTION 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for in this Indenture with respect to compliance with any provision hereof shall include (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such Person, such Person has made or caused to be made such examination or investigation as is necessary to enable such Person to express an informed opinion with respect to the subject matter referred to in the instrument to which such Person’s signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such Person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the Authority or an officer or Authorized Representative of the Borrower may be based, insofar as it relates to legal, accounting or business matters of either of them, upon a certificate or opinion of or representation by counsel, an Accountant or a management consultant, unless such officer or Authorized Representative knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate, opinion or representation may be based, as aforesaid, is erroneous. Any such certificate, opinion or representation made or given by counsel, an Accountant or a management consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority or the Borrower, as the case may be) upon a certificate or opinion of or representation by an officer of the Authority or an officer or Authorized Representative of the Borrower, unless such counsel, Accountant or management consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such Person’s certificate or opinion may be based, as aforesaid, is erroneous. The same officer of the Authority or officer or Authorized Representative of the Borrower, or the same counsel or Accountant or management consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Indenture, but different officers, Authorized Representatives, counsel, Accountants or management consultants may certify to different matters, respectively.

SECTION 1.03. Interpretation. (a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II THE BONDS

SECTION 2.01. Authorization of Bonds. The Bonds shall be issued hereunder in order to obtain moneys to carry out the purposes of the Act for the benefit of the Authority and the Borrower. The Bonds are designated as "California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project), Series 2010A". This Indenture constitutes a continuing agreement with the Holders from time to time of the Bonds to secure the full payment of the principal (or redemption price) of, premium if any, and interest on all such Bonds subject to the covenants, provisions and conditions herein contained.

SECTION 2.02. Form of the Bonds. The Bonds shall be issued in the form of fully registered bonds and in the principal amount of \$50,000,000, to be dated the Date of Delivery. The Bonds shall mature (subject to prior redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on the Principal Payment Date and shall bear interest at the rate of 5.10% per annum.

The Bonds shall be issuable in Authorized Denominations. The Bonds shall be issued in substantially the form set forth in Exhibit A of this Indenture with such variations, insertions or omissions as are appropriate and not inconsistent therewith and shall conform generally to the rules and regulations of any governmental authority or usage or requirement of law with respect thereto. The Bonds shall be numbered and lettered from one upward preceded by the letters "R-" prefixed to the number and may bear such additional letters, numbers, legends or designations as the Bond Registrar determines are desirable.

SECTION 2.03. Interest Rates. (A) The Bonds shall bear interest from and including the date of first authentication and delivery thereof until payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions hereof, whether at maturity, upon redemption or otherwise. Interest on the Bonds with respect to the immediately preceding Interest Period shall be paid as provided below, provided that if any Interest Payment Date is not a Business Day, such interest shall be mailed or wired pursuant to this Section 2.03 on the next succeeding Business Day, with the same effect as if made on the day such payment was due. Interest on the Bonds shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months.

Subject to Section 2.10, payment of the interest on any Bond shall be made to the Person appearing on the bond registration books of the Bond Registrar as the Bondholder thereof on the Record Date, such interest to be paid by the Paying Agent to such Bondholder (i) by check mailed by first class mail on the Interest Payment Date, to such Bondholder's address as it appears on the registration books or at such other address as has been furnished to the Bond Registrar as provided below, in writing by such Bondholder not later than the Record Date, or (ii) upon written request at least three Business Days prior to the applicable Record Date of the Bondholder of Bonds aggregating not less than \$1,000,000 in principal amount of such Bonds, by wire transfer in immediately available funds at an account maintained in the United States at such wire address as such Bondholder shall specify in its written notice (any such written request shall remain in effect until rescinded in writing by such Bondholder); except, in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest rate shall be the Default Rate, and such defaulted interest shall be paid to the Bondholder in whose name any such Bonds are registered at the close of business on the fifth Business Day next preceding the date of payment of such defaulted interest. Both the principal of and premium, if any, on the Bonds shall be payable upon surrender thereof in lawful money of the United States of America at the Corporate Trust Office of the Trustee.

SECTION 2.04. Execution of Bonds. The Bonds shall be executed in the name and on behalf of the Authority with the manual or facsimile signature of its Chairman, under the seal of the Authority. Such seal may be in the form of a facsimile of the Authority's seal and may be reproduced, imprinted or impressed on the Bonds. The Bonds shall then be delivered to the Trustee for authentication by it, as directed by the Authority. In case the officer who shall have signed any of the Bonds shall cease to be such officer of the Authority before the Bonds so signed shall have been authenticated or delivered by the Trustee or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though the officer who signed the same had continued to be such officer of the Authority, and also any Bonds may be signed on behalf of the Authority by such individual as at the actual date of execution of such Bonds shall be the proper officer of the Authority although at the nominal date of such Bonds any such individual shall not have been such officer of the Authority.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form set forth in Exhibit A, with the manual signature of the Trustee as authenticating agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.05. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.07 hereof, by the Person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such registered Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Transfer of a Bond shall not be permitted by the Trustee during the period Bonds are selected for redemption or after the Record Date prior to the next succeeding Interest Payment Date.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds for a like aggregate principal amount in Authorized Denominations. The Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any such transfer shall be paid by the Borrower.

SECTION 2.06. Exchange of Bonds. Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other Authorized Denominations. The Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing Bonds and any services rendered or expenses incurred by the Authority or the Trustee in connection with any such exchange shall be paid by the Borrower.

SECTION 2.07. Bond Register. The Trustee will keep or cause to be kept at its Corporate Trust Office sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection during regular business hours by the Authority upon reasonable notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

SECTION 2.08. Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, shall be in an Authorized Denomination, shall be in fully registered form without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority and be authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Corporate Trust Office of the Trustee and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds in Authorized Denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Holder of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and upon request delivered to the Authority. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Authority and the Trustee and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the Authority, at the expense of the Holder, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond

of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee). The Authority may require payment by the Holder of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Authority and the Trustee in the premises. If, after the delivery of such new Bond, a bona fide purchaser of the original Bond in lieu of which such new Bond was issued presents for payment or registration such original Bond, the Trustee shall be entitled to recover such new Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Trustee or the Authority in connection therewith. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

SECTION 2.10. Book-Entry Only System. (A) Except as otherwise provided in subsections (B) and (C) of this Section 2.10, the Bonds initially authenticated and delivered hereunder shall be registered in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request. Payments of interest on, principal of and any premium on the Bonds shall be made to the account of Cede & Co. on each payment date for principal or interest on the Bonds at the address indicated for Cede & Co. in the registration books maintained by the Bond Registrar by transfer of immediately available funds. DTC has represented to the Authority that it will maintain a book-entry system in recording ownership interests of the Direct Participants and the ownership interests of Beneficial Owners will be recorded through book entries on the records of the Direct Participants.

(B) The Bonds shall be initially issued in the form of a separate single authenticated fully registered Bond in the amount of each separate stated maturity. With respect to Bonds so registered in the name of Cede & Co., the Authority and the Trustee shall have no responsibility or obligation to any Direct Participant or to any Beneficial Owner of such Bonds. Without limiting the immediately preceding sentence, the Authority and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Direct Participant with respect to any beneficial ownership interest in the Bonds, (ii) the delivery to any Direct Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Direct Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal, redemption price of, or interest on, the Bonds or (iv) any consent given or other action taken by DTC as Holder of the Bonds. The Authority and the Trustee treat DTC as, and deem DTC to be, the absolute Holder of each Bond for all purposes whatsoever including (but not limited to) (i) payment of the principal, redemption price of, and interest on, each such Bond, (ii) giving notices of conversion or redemption and other matters with respect to such Bonds and (iii) registering transfers with respect to such Bonds. The Trustee shall pay the principal, redemption price (including premium, if any) of, and interest on, all Bonds only to or upon the order of DTC, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to such principal, redemption price, and interest, to the extent of the sum or sums so paid. No Person other than DTC shall receive a Bond evidencing the obligation of the Authority to make payments of principal, redemption price of, and interest on, the Bonds pursuant to this

Indenture. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the transfer provisions hereof, the word “Cede & Co.” in this Indenture shall refer to such new nominee of DTC.

(C)(1) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable written notice to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law.

(2) The Authority, in its sole discretion and without the consent of any other Person, may terminate, upon provision of notice to the Trustee and the Borrower, the services of DTC with respect to the Bonds if the Authority determines that the continuation of the system of book-entry only transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners of the Bonds or is burdensome to the Authority.

(3) The Authority shall terminate the services of DTC with respect to the Bonds upon receipt by the Authority, the Trustee and the Borrower of written notice from DTC to the effect that DTC has received written notice from Direct Participants having interests, as shown in the records of DTC, in an aggregate principal amount of not less than 50% of the aggregate principal amount of the then Outstanding Bonds to the effect, that: (i) DTC is unable to discharge its responsibilities with respect to such Bonds, or (ii) a continuation of the requirement that all of the Outstanding Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interest of the Beneficial Owners of such Bonds.

(D) Upon the termination of the services of DTC with respect to the Bonds pursuant to subsection (C)(3)(ii) hereof, or upon the discontinuance or termination of the services of DTC with respect to the Bonds pursuant to subsection (C)(1), (C)(2) or subsection (C)(3)(i) hereof after which no substitute Securities Depository willing to undertake the functions of DTC hereunder can be found or which, in the opinion of the Authority, is willing and able to undertake such functions upon reasonable and customary terms, the Bonds shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of Cede & Co. as nominee of DTC. In such event, the Authority shall issue and the Trustee shall transfer and exchange Bond certificates as requested by DTC or Direct Participants of like principal amount and maturity, in Authorized Denominations to the identifiable Beneficial Owners in replacement of such Beneficial Owners' beneficial interests in the Bonds.

(E) Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal, redemption price of, and interest on, such Bond and all notices with respect to such Bond shall be made and given, respectively, to DTC as provided in the letter of representations of the Authority addressed to DTC with respect to the Bonds (the “DTC Letter of Representations”).

(F) In connection with any notice or other communication to be provided to Bondholders pursuant to this Indenture by the Authority or the Trustee with respect to any consent or other action to be taken by Bondholders, the Authority or the Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(G) Notwithstanding any provision herein to the contrary, the Authority and the Trustee may agree to allow DTC, or its nominee, Cede & Co., to make a notation on any Bond redeemed in part to reflect, for informational purposes only, the principal amount and date of any such redemption.

ARTICLE III ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01. Issuance of the Bonds. At any time after the execution and delivery of this Indenture or from time to time thereafter, upon the execution of the Bonds by the Authority and delivery thereof to the Trustee, as hereinabove provided, and without any further action on the part of the Authority, the Trustee shall authenticate upon Request of the Authority, and deliver the Bonds in an aggregate principal amount not exceeding \$50,000,000.

SECTION 3.02. Application of Proceeds of Bonds and Other Moneys. The proceeds received by the Authority from the sale of the Bonds shall be deposited with the Trustee, who shall forthwith:

(i) deposit \$1,000,000.00 of such proceeds into the Proceeds Account of the Costs of Issuance Fund, which fund and account the Trustee shall establish and maintain as further provided in Section 3.04 hereof; and

(ii) deposit the balance of such proceeds (\$49,000,000.00) into the Project Fund, which fund the Trustee shall establish and maintain as further provided in Section 3.03 hereof.

The Trustee shall also deposit \$0 received from the Borrower in the Borrower Account of the Costs of Issuance Fund.

SECTION 3.03. Project Fund. The Trustee shall establish the San Jose Water Company Project Fund (the "Project Fund") for which proceeds of the Bonds will be applied to the payment of the Costs of the Project. The moneys in the Project Fund shall be held by the Trustee in trust and applied to the payment of the Costs of the Project, in the manner set forth below.

Before each payment is made from the Project Fund (including any account established therein) by the Trustee, there shall be filed with the Trustee a sequentially numbered Requisition of the Borrower conforming with the requirements of this Section and Section 3.2 of the Agreement, and in the form attached hereto as Exhibit C, stating with respect to each payment to be made:

- (1) the requisition number;
- (2) the name and address of the Person to whom payment is due;
- (3) the purpose for which such payment is to be made;

- (4) the amount to be paid;
- (5) that each obligation mentioned therein has been properly incurred and is a proper charge against the Project Fund;
- (6) that none of the items for which payment is requested has been previously reimbursed from the Project Fund;
- (7) that each item for which payment is requested is or was necessary in connection with the acquisition, construction, renovation, installation, improvement, equipping or financing of the Project;
- (8) that at least 96% of the amount requisitioned, together with all amounts requisitioned to date, have in the aggregate been used to pay for or to reimburse the Borrower for expenditures properly allocable to Costs of the Project pursuant to the Tax Certificate (excluding Costs of Issuance); and
- (9) that an invoice evidencing each item for payment is attached thereto, including invoices for costs previously paid and for which reimbursement is being requested.

Each such Requisition of the Borrower shall be sufficient evidence of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such Requisition of the Borrower, signed by an Authorized Representative of the Borrower and accompanied by an invoice for each item for payment, the Trustee shall thereupon disburse moneys in the Project Fund to pay the amount set forth therein as directed by the terms thereof. The Authority may at any time request copies of accounting records from the Trustee reflecting investment and disbursement of funds in the accounts under its control.

Prior to the Completion Date, if Borrower delivers a Request to the Trustee (i) describing a component of the Project that is no longer necessary for inclusion within the Project and the reasons therefore (which Request has been consented to, or deemed consented to by the Authority in accordance with Section 3.2(d) of the Agreement), and (ii) requesting the Trustee to apply a proportionate amount of moneys in the Project Fund which correspond to such portion of the Project to redeem Bonds in Authorized Denominations, to the maximum degree permissible, and at the earliest possible dates at which the Bonds can be redeemed pursuant to Section 4.01 of this Indenture; then the Trustee shall transfer such amount from the Project Fund into a separate account within the Revenue Fund, which the Trustee shall establish and hold in trust, and which shall be entitled the "Surplus Account." The moneys in the Surplus Account shall be used and applied (subject to Section 5.03) in accordance with such Request (unless some other application of such moneys permitted by the Indenture and the Loan Agreement is requested by the Borrower and would not, in the opinion of Bond Counsel, cause interest on the Bonds to become no longer Tax-exempt).

Upon the receipt by the Trustee of a certificate conforming with the requirements of Section 3.3 of the Agreement, and after payment of costs payable from the Project Fund or provision having been made for payment of such costs not yet due by retaining such costs in the Project Fund or otherwise as directed in such certificate, the Trustee shall transfer any

remaining balance in the Project Fund into either any previously established Surplus Account or into a separate account within the Revenue Fund, which the Trustee shall establish and hold in trust, and which shall be entitled the "Surplus Account." The moneys in the Surplus Account shall be used and applied (subject to Section 5.03) at the written direction of the Borrower (unless some other application of such moneys permitted by the Indenture and the Loan Agreement is requested by the Borrower and would not, in the opinion of Bond Counsel, cause interest on the Bonds to become no longer Tax-exempt) to redeem Bonds in Authorized Denominations, to the maximum degree permissible, and at the earliest possible dates at which the Bonds can be redeemed pursuant to Section 4.01 of this Indenture.

Notwithstanding Section 5.05 hereof, the moneys in the Surplus Account shall be invested at the written instruction of the Borrower at a yield no higher than the yield on the Outstanding Bonds (unless in the opinion of Bond Counsel, addressed and delivered to the Authority and the Trustee, investment at a higher yield would not cause interest on the Bonds to become no longer Tax-exempt), and all such investment income shall be deposited in the Surplus Account and expended or reinvested as provided above.

In the event of redemption of all of the Bonds pursuant to Section 4.01 hereof or an Event of Default which causes acceleration of the Bonds, any moneys then remaining in the Project Fund shall be transferred to the Surplus Account within the Revenue Fund, and all moneys in the Revenue Fund shall be used to redeem Bonds or pay Bonds upon such acceleration.

SECTION 3.04. Costs of Issuance Fund. The Trustee shall establish the Costs of Issuance Fund (the "Costs of Issuance Fund"). The Trustee shall also create separate accounts in the Costs of Issuance Fund designated the "Proceeds Account" and the "Borrower Account". The moneys in each account of the Costs of Issuance Fund shall be held by the Trustee in trust and applied to the payment of Costs of Issuance for the Bonds, upon a sequentially numbered Requisition of the Borrower filed with the Trustee, in the form attached hereto as Exhibit D, together with invoices as required by Section 3.2(c) of the Agreement, signed by an Authorized Representative of the Borrower. All payments from the Costs of Issuance Fund shall be reflected in the Trustee's regular accounting statements. Any amounts remaining in the Proceeds Account of the Costs of Issuance Fund six months following the Date of Delivery of the Bonds shall be transferred to the Project Fund and any amounts remaining in the Borrower Account of the Costs of Issuance Fund six months following the Date of Delivery of the Bonds shall be transferred to the Borrower. Upon such transfers, the Trustee shall close the Costs of Issuance Fund.

SECTION 3.05. Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Agreement. The recital contained in the Bonds that the same are issued pursuant to the Act and the Constitution and laws of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

**ARTICLE IV
REDEMPTION OF BONDS**

SECTION 4.01. Terms of Redemption of Bonds. The Bonds are subject to redemption if and to the extent the Borrower is entitled to make and makes, or is required to make, a prepayment pursuant to Articles IV or VIII of the Agreement. All such prepayments shall be deposited in the Redemption Account. The Bonds shall not be called for optional redemption, and the Trustee shall not give notice of any such redemption, unless the Borrower has so directed in writing to the Trustee with a copy to the Authority, as provided in the Loan Agreement.

(1) Sinking Fund Redemption. The Bonds shall not be subject to mandatory sinking fund redemptions.

(2) Mandatory Redemption Upon Invalidity. In the event of a prepayment pursuant to Section 7.3(a) of the Agreement as a result of invalidity, Bonds Outstanding on the date of the occurrence of the invalidity shall be redeemed in whole at any time within 30 days thereafter, at a redemption price of 100% of the principal amount thereof, without premium, plus accrued interest to the date of redemption. No redemption of Bonds shall be made pursuant to any of the other provisions of this Section 4.01 following invalidity.

(3) Mandatory Redemption of Bonds Upon a Determination of Taxability. In the event of a prepayment pursuant to Section 7.3(b) of the Agreement as a result of a Determination of Taxability, Bonds Outstanding on the date of the occurrence of the Determination of Taxability shall be redeemed, in whole or in part, at any time within 30 days thereafter, at a redemption price of 100% of the principal amount thereof, without premium, plus accrued interest to the date of redemption. No redemption of Bonds shall be made pursuant to any of the other provisions of this Section 4.01 following a Determination of Taxability.

(4) Optional Redemption. The Bonds shall also be subject to redemption, in whole or in part, on any date on or after June 1, 2020 at a redemption price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the date of redemption, if any.

SECTION 4.02. Selection of Bonds for Redemption. Whenever provision is made in this Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption by lot in any manner which the Trustee in its sole discretion shall deem appropriate.

SECTION 4.03. Notice of Redemption. Notice of redemption shall be mailed by first class mail not less than 30 days or more than 60 days before such redemption date, to the respective Holders of any Bonds designated for redemption at their addresses on the registration books maintained by the Bond Registrar. Each notice of redemption shall state the redemption date, the place or places of redemption, if less than all of the Bonds are to be redeemed, the distinctive number(s) of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the

principal thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered, and, with regard to optional redemption pursuant to Section 4.01(4), in the event that funds required to pay the redemption price are not on deposit under the Indenture at the time the notice of redemption is sent, a statement to the effect that the redemption is conditioned upon the receipt of the appropriate funds required to pay the redemption price by the Trustee on or prior to the redemption date. Neither failure to receive such notice nor any defect therein shall affect the sufficiency of such redemption. With respect to any notice of optional redemption of Bonds, such notice may be conditional upon the fulfillment of any conditions set out within such notice. In the event that such notice of redemption contains conditions which are not met, the redemption shall not be made, and the Trustee shall give notice, no less than two Business Days before the redemption was to be made, in the manner in which the notice of redemption was given, that the redemption will not be made.

(B) Notice of redemption of such Bonds shall be given by the Trustee, at the expense of the Borrower, for and on behalf of the Authority.

(C) At the same time that it sends notice of redemption to Owners of such Bonds, the Trustee shall also send a copy of the notice by first class mail, by telecopy or by overnight delivery to the Authority, the Securities Depositories and an Information Service. Failure to provide notice to the Authority, the Securities Depositories or an Information Service shall not affect the validity of proceedings for the redemption of such Bonds.

SECTION 4.04. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Borrower, a new Bond or Bonds of Authorized Denominations and of like maturity equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

SECTION 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price (including premium, if any) of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, except for payment of particular Bonds for which moneys are being held by the Trustee which moneys shall be pledged to such payment, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said redemption price (including premium, if any) and interest accrued to the date fixed for redemption.

All Bonds redeemed pursuant to the provisions of this Article shall be canceled and disposed of in a manner that is deemed appropriate by the Trustee in accordance with its retention policy then in effect.

ARTICLE V
REVENUES; FUNDS AND ACCOUNTS;
PAYMENT OF PRINCIPAL AND INTEREST

SECTION 5.01. Pledge and Assignment; Revenue Fund. (A) Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to this Indenture (except the Rebate Fund and the Borrower Account of the Costs of Issuance Fund) are hereby pledged to secure the full payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of this Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

(B) The Authority hereby transfers in trust, and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged in subsection (A) of this Section and all of the right, title and interest of the Authority in the Loan Agreement (except for the Retained Rights). Such assignment to the Trustee is solely in its capacity as Trustee under this Indenture, subject to the protections, immunities and limitations from liability afforded the Trustee hereunder. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and, subject to the provisions of this Indenture, shall forthwith be paid by the Authority to the Trustee. Notwithstanding anything to the contrary in this Indenture, the Authority shall have no obligation to and instead the Trustee may, without further direction from the Authority, take any and all steps, actions and proceedings, to enforce any or all rights of the Authority (other than the Retained Rights) under this Indenture or the Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Borrower under the Loan Agreement.

(C) All Revenues (except investment earnings (which shall be deposited as provided in Section 5.04)) shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the Revenue Fund which the Trustee shall establish, maintain and hold in trust; except as otherwise provided in Section 5.02 hereof, all moneys received by the Trustee and required to be deposited in the Redemption Account, if any, shall be promptly deposited in the Redemption Account, which the Trustee shall establish, maintain and hold in trust as provided in Section 5.02 hereof. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture.

(D) On the third Business Day of each June, any amount held by the Trustee in the Revenue Fund on the due date for a Loan Repayment under the Loan Agreement shall be credited against the installment due on the next Loan Repayment date to the extent available for such purpose under the terms of this Indenture.

SECTION 5.02. Allocation of Revenues. On or before any date on which interest or principal (whether at maturity, or by redemption or acceleration) is due, the Trustee shall transfer funds from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee is hereby directed and agrees to establish and maintain within the Revenue Fund),

the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority;

First: to the Interest Account, the aggregate amount of interest becoming due and payable on the next succeeding Interest Payment Date or date of redemption of all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest.

Second: to the Redemption Account, the aggregate amount of principal and premium next coming due by acceleration or by redemption permitted or required under Article IV hereof, or any portion thereof paid by the Borrower.

Third: to the Principal Account, the amount paid by the Borrower and designated as or attributable to principal on the Bonds in the most recent Loan Repayment equal to the aggregate amount of principal due on the Principal Payment Date pursuant to Section 2.02 hereof.

SECTION 5.03. Priority of Moneys in Revenue Fund. Funds for the payment of the principal or redemption price (including premium, if any) of and interest on the Bonds shall be derived from the following sources in the order of priority indicated below from each of the accounts in the Revenue Fund; provided however, that amounts in the respective accounts in the Revenue Fund shall be used to pay when due (whether upon redemption, acceleration, interest payment date, maturity or otherwise) the principal or redemption price (including premium, if any) of and interest on the Bonds held by Holders other than the Borrower prior to the payment of the principal and interest on the Bonds held by the Borrower:

(i) moneys paid into the Interest Account, if any, representing accrued interest received at the initial sale of the Bonds and proceeds from the investment thereof which shall be applied to the payment of interest on such Bonds; and

(ii) moneys paid into the Revenue Fund and deposited in the Revenue Fund and proceeds from the investment thereof.

SECTION 5.04. Investment of Moneys. All moneys in any of the funds or accounts established pursuant to this Indenture shall be invested by the Trustee, as directed in writing by the Borrower or its agent, solely in Investment Securities. Notwithstanding any other provision herein, in the absence of written investment instructions directing the Trustee by noon of the second Business Day preceding the day when investments are to be made, the Trustee is directed to invest available funds in Investment Securities described in paragraph iv of the definition thereof. The Trustee shall not be liable for any losses resulting from any investments made pursuant to the preceding two sentences.

Investment Securities may be purchased at such prices as the Trustee may in its discretion determine or as may be directed by the Borrower or its agent. All Investment Securities shall be acquired subject to the limitations set forth in Section 6.05 hereof, the limitations as to maturities hereinafter in this Section set forth and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Borrower.

Moneys in all funds and accounts shall be invested in Investment Securities maturing not later than the date on which such moneys will be required for the purposes specified in this Indenture. Notwithstanding anything else in this Section 5.04, any moneys in the Interest Account, the Principal Account or the Redemption Account held for the payment of particular Bonds shall be invested at the written direction of the Borrower in direct obligations of the United States or bonds or other obligations guaranteed by the United States government or for which the full faith and credit of the United States is pledged for the full and timely payment of principal and interest thereof (or money market funds or mutual funds consisting solely of such investments which are rated Moody's "Aaa" or equivalent), rated in the highest rating category applicable to such investments which mature not later than the date on which it is estimated that such moneys will be required to pay such Bonds.

All interest, profits and other income received or losses incurred from the investment of moneys in any fund established pursuant to this Indenture shall be deposited or booked in the fund or account which gave rise to the investment earnings or losses. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund from which such accrued interest was paid. To the extent that any Investment Securities are registrable, such Securities shall be registered in the name of the Trustee or its nominee.

For the purpose of determining the amount in any fund, all Investment Securities credited to such fund shall be valued at the lesser of cost or par value plus, prior to the first payment of interest following purchase, the amount of accrued interest, if any, paid as a part of the purchase price.

Subject to Section 6.06 hereof, investments in any and all funds and accounts held by the Trustee hereunder (other than moneys held in the Borrower Account of the Costs of Issuance Fund or moneys held for the payment of particular Bonds (including moneys held for non-presented Bonds or held under Section 10.03 hereof)) may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in particular funds and accounts, the amounts received or held by the Trustee hereunder, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in this Indenture. Subject to Section 6.05 hereof, any moneys invested in accordance with this Section may be invested in a pooled investment account consisting solely of funds held by the Trustee as a fiduciary. The Authority (and the Borrower by its execution of the Loan Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority or the Borrower the right to receive brokerage confirmations of security transactions as they occur, the Authority and the Borrower specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority and the Borrower periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee may sell or present for redemption any Investment Securities whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

SECTION 5.05. Rebate Fund. (a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the "Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee shall maintain such other accounts as it is instructed by the Borrower as shall be necessary in order to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America, and no other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section 5.05, by Section 6.06 hereof and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Borrower including supplying all necessary information in the manner provided in the Tax Certificate, shall not be required to take any actions thereunder, in the absence of written directions by the Borrower, and shall have no liability or responsibility to enforce compliance by the Borrower or the Authority with the terms of the Tax Certificate.

(b) Upon the Borrower's written direction, an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the Borrower, or from available investment earnings on amounts (other than moneys held in the Borrower Account of the Costs of Issuance Fund or moneys held for the payment of particular Bonds (including moneys held for non-presented Bonds or held under Section 10.03 hereof)) held in the Revenue Fund, if and to the extent required, so that the balance of the amount on deposit thereto shall be equal to the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Borrower in accordance with the Tax Certificate. The Trustee may rely conclusively upon the Borrower's determinations, calculations and certifications required by this Section 5.05(b). The Trustee shall have no responsibility to make any independent calculations or determinations or to review the Borrower's calculations hereunder.

(c) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section 5.05 other than from moneys held in the funds and accounts created under this Indenture (other than moneys held in the Borrower Account of the Costs of Issuance Fund or moneys held for the payment of particular Bonds (including moneys held for non-presented Bonds or held under Section 10.03)) or from other moneys provided to it by or on behalf of the Borrower.

(d) The Trustee shall invest all amounts held in the Rebate Fund in Investment Securities as instructed in writing by the Borrower, and the Borrower shall be responsible for such Rebate Instructions complying with the Tax Certificate. Money shall not be transferred from the Rebate Fund except as provided in paragraph (e) below.

(e) Upon receipt of the Borrower's written directions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Borrower so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds (other than moneys held in the Borrower

Account of the Costs of Issuance Fund or moneys held for the payment of particular Bonds (including moneys held for non-presented Bonds or held under Section 10.03 hereof)) as directed by the Borrower's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor shall be withdrawn and remitted to the Borrower upon the Borrower's written request. The Trustee shall be deemed conclusively to have complied with the rebate requirements if it follows the written directions of the Borrower, and shall, absent its negligence or willful misconduct, have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Borrower with these rebate requirements

(f) Notwithstanding any other provision of this Indenture, including in particular Article X hereof, the obligation to remit the Rebate Requirements to the United States and to comply with all other requirements of this Section 5.05 hereof, Section 6.06 hereof and the Tax Certificate shall survive the defeasance or payment in full of such Bonds.

ARTICLE VI PARTICULAR COVENANTS

SECTION 6.01. Punctual Payment. The Authority shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in this Indenture. When and as paid in full, all Bonds shall be delivered to the Trustee, shall forthwith be canceled and destroyed, and a certificate of such destruction shall thereafter be delivered to the Authority.

SECTION 6.02. Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the Authority to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

SECTION 6.03. Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

SECTION 6.04. Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned,

respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority and Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bondholders under this Indenture against all claims and demands of all Persons whomsoever, subject to the limitations set forth in Article VIII relating to the Trustee.

SECTION 6.05. Accounting Records and Reports. The Trustee shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the Revenues and the proceeds of the Bonds. Such records shall specify the account or fund to which each investment (or portion thereof) held by the Trustee is to be allocated and shall set forth, in the case of each Investment Security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, (d) the amounts and dates of any payments made with respect thereto, and (e) such documentation as is required to be retained by the Trustee as evidence to establish that any requirements set forth in the Tax Certificate or with respect to establishing market price, to the extent provided to it. Such records shall be open to inspection by the Authority and any Holder at any reasonable time during regular business hours on reasonable notice.

SECTION 6.06. Arbitrage Covenants. (a) The Authority and the Borrower covenant and agree that neither will take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest payable on the Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Authority and the Borrower each covenants and agrees that it will each comply with the requirements of the Tax Certificate.

(b) The Trustee agrees to comply with all written Rebate Instructions of the Borrower given pursuant to the Tax Certificate; provided, however, that the Borrower shall be responsible for such Rebate Instructions complying with the Tax Certificate.

The Trustee conclusively shall be deemed to have complied with the provisions of this Section 6.06(b) if it follows the Rebate Instructions and directions of the Borrower and shall not be required to take any action under this Section 6.06(b) in the absence of such directions from the Borrower. The Trustee shall not be liable for any consequences resulting from its failure to act if no Rebate Instructions from the Borrower (or in the absence of Borrower Rebate Instructions, instructions from the Authority) are delivered to it.

(c) Notwithstanding any provision of this Section, if the Borrower shall provide to the Trustee and the Authority an opinion of Bond Counsel that any action required under Section 5.05 or this Section 6.06 is no longer required, or that some further action is required to maintain the Tax-exempt status of interest on the Bonds, the Trustee and the Authority may rely conclusively on such opinion in complying with the requirements of this Section, and the covenants contained herein shall be deemed to be modified to that extent.

SECTION 6.07. Other Covenants. (a) The Trustee shall promptly collect all amounts due from the Borrower pursuant to the Agreement, shall perform all duties imposed upon it pursuant to the Agreement and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority (except the Retained Rights) and all of the obligations of the Borrower pursuant to the Agreement.

(b) The Authority shall not amend, modify or terminate any of the terms of the Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent only if (1) in the Opinion of Counsel, such amendment, modification or termination will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security hereby given for the payment of the Bonds, or (2) the Trustee first obtains the written consent of either the Holders of all or a majority, as applicable, in principal amount of the Bonds then Outstanding to such amendment, modification or termination, pursuant to Section 9.01(A) hereof. The Trustee and the Authority shall be entitled to rely upon an Opinion of Counsel with respect to the effect of any amendments hereto or to the Agreement. The Trustee may in its discretion but shall not be obligated to give its written consent if such amendment, modification or termination affects the Trustee's own rights, duties or immunities.

SECTION 6.08. Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

SECTION 6.09. Further Assurances. The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in this Indenture.

SECTION 6.10. Continuing Disclosure. Pursuant to Section 5.11 of the Loan Agreement, the Borrower has undertaken all responsibility for compliance with the continuing disclosure requirements promulgated under S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, and the Authority shall have no liability to the Holders of the Bonds or any other Person with respect to such disclosure matters. Notwithstanding any other provision of this Indenture, failure of the Borrower to comply with the requirements of S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, shall not be considered an Event of Default; however, the Trustee at the written request of the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, but only to the extent indemnified to its satisfaction from and against any cost, liability or expense of any kind whatsoever related thereto, including, without limitation, reasonable fees and expenses of its attorneys and advisors and additional fees and expenses of the Trustee, or at the written request of any Bondholder or beneficial owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under Section 5.11 of the Loan Agreement.

ARTICLE VII
EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 7.01. Events of Default; Acceleration; Waiver of Default. Each of the following events which has occurred and is continuing shall constitute an “Event of Default” hereunder:

(a) default in the due and punctual payment of the principal of, or premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Bond, when and as the same shall become due and payable;

(c) failure by the Authority to perform or observe any other of the covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, and the continuation of such failure for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Borrower by the Trustee, or to the Authority, the Borrower and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; or

(d) the occurrence and continuance of a Loan Default Event described in Section 6.1 of the Agreement.

No default specified in (c) above shall constitute an Event of Default unless the Authority and the Borrower shall have failed to correct such default within the applicable period; provided, however, that if the default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority or the Borrower within the applicable period and diligently pursued. With regard to any alleged default concerning which notice is given to the Borrower under the provisions of this Section, the Borrower shall have full authority to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default with full power to do any and all things and acts to the same extent that the Authority could do and perform any such things and acts.

During the continuance of an Event of Default described in (a), (b), (c) or (d) above, unless the principal of all the Bonds shall have already become due and payable, the Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, the Trustee shall, promptly upon such occurrence, by notice in writing to the Authority and the Borrower, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding. Interest on the Bonds shall cease to accrue as of the date of declaration of acceleration. The Trustee shall promptly notify the Bondholders of the date of declaration of acceleration and the cessation of accrual of interest on the Bonds in the same manner as for a notice of redemption.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum sufficient to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal as provided in the Agreement, and the reasonable fees and expenses of the Trustee, including reasonable fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

SECTION 7.02. Institution of Legal Proceedings by Trustee. Subject to Section 7.01 hereof, if one or more of the Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Holders of not less than a majority in principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction therefor pursuant to Section 8.03(G) hereof shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Act or under this Indenture or the Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein or therein, or in aid of the execution of any power herein or therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder.

SECTION 7.03. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture (subject to Sections 3.04 (relative to the Borrower Account of the Costs of Issuance Fund), 5.05, 6.06 and 11.11 hereof) shall be promptly applied by the Trustee as follows and in the following order:

(1) To the payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under this Indenture (provided, however, that no moneys in the Revenue Fund may be used to pay such expenses);

(2) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Indenture (including Section 6.02 hereof), as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the Default Rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference;

provided, however, that in no event shall moneys set aside to pay principal or interest on any particular Bonds (including moneys held for non-presented Bonds or held under Section 10.03 hereof) be used to pay any of the items listed in clause (1) of this Section until all amounts have been paid under clause (2) of this Section.

SECTION 7.04. Trustee to Represent Bondholders. The Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, this Indenture, the Agreement, the Act and applicable provisions of any other law. Subject to Section 7.01 hereof, upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under this Indenture, the Agreement, the Act or any other law; and upon instituting

such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under this Indenture, pending such proceedings. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Indenture (including Section 6.02 hereof).

SECTION 7.05. Bondholders' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, but subject to Section 8.03(G), the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction or for which it has not been provided adequate indemnity.

SECTION 7.06. Limitation on Bondholders' Right to Sue. Subject to Section 7.01 hereof, no Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture, the Agreement, the Act or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) subject to Section 8.03(G) hereof, such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by such Holders' action to affect, disturb or prejudice the security of this Indenture or the rights of any other Holders of Bonds, or to enforce any right under this Indenture, the Agreement, the Act or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of this Indenture (including Section 6.02 hereof).

SECTION 7.07. Absolute Obligation of Authority. Nothing in Section 7.06 or in any other provision of this Indenture, or in the Bonds, contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Holders, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

SECTION 7.08. Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Authority, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

SECTION 7.09. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.10. No Waiver of Default. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

ARTICLE VIII THE TRUSTEE, THE PAYING AGENT AND THE BOND REGISTRAR

SECTION 8.01. Duties, Immunities and Liabilities of Trustee. (A) The Trustee and the Registrar shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs. Notwithstanding any other provision of this Indenture, the Trustee shall perform all duties required of it hereunder.

No provision of this Indenture shall be construed to relieve the Trustee or the Registrar from liability for its own negligent action or its own negligent failure to act, except that:

(a) Prior to such an Event of Default hereunder and after the curing of all Events of Default which may have occurred,

(1) the duties and obligations of the Trustee and the Registrar, as the case may be, shall be determined solely by the express provisions of this Indenture, the Trustee and Registrar, as the case may be, shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee and the Registrar, as the case may be; and

(2) in the absence of bad faith on the part of the Trustee or the Registrar, as the case may be, the Trustee or Registrar, as the case may be, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee or the Registrar, as the case may be, conforming to the requirements of this Indenture; but in the case of any such certificate or opinion which by any provision hereof is specifically required to be furnished to the Trustee or the Registrar, as the case may be, the Trustee or Registrar, as the case may be, shall be under a duty to examine the same to determine whether or not it conforms to the requirements of this Indenture; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

(1) the Trustee and the Registrar shall not be liable for any error of judgment made in good faith by a responsible officer, director or employee of the Trustee or the Registrar unless it shall be proved that the Trustee or the Registrar, as the case may be, was negligent in ascertaining the pertinent facts;

(2) neither the Trustee nor the Registrar shall be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority, or such larger percentage as may be required hereunder, in aggregate principal amount of the Bonds at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or Registrar, or exercising any trust or power conferred upon the Trustee or the Registrar under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee or Registrar to expend or risk their own funds or otherwise incur individual financial liability in the performance of any of their duties or in the exercise of any of their rights or powers other than to notify the Authority that they intend to take no particular action or to notify the Bondholders that they will take no action, if adequate indemnity against such risk or liability is not assured to them. All indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, officers, employees and agents of the Trustee.

(B) The Authority may remove the Trustee at any time upon its own decision or upon Request of the Borrower, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (E) of this Section, or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

(C) The Trustee may at any time resign by giving written notice of such resignation to the Authority and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

(D) Any removal or resignation of the Trustee pursuant to (B) or (C) above and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of itself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Request of the Authority or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall mail a notice of the succession of such Trustee to the trusts hereunder to each Rating Agency which is then rating the Bonds, to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Authority fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

(E) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company, association, corporation or bank having the powers of a trust company which either (i) has a combined capital and surplus of at least fifty million dollars (\$50,000,000), and is subject to supervision or examination by federal or state authority or (ii) is a wholly-owned subsidiary of a bank, association, trust company, corporation or bank holding company meeting, on an aggregate basis, the tests set out in clause (i). If such bank, association, bank holding company, corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank, association, bank holding company, corporation or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (E), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

(F) The Trustee is not responsible for effecting, maintaining or renewing any policies of insurance of the Borrower or for any representations regarding the sufficiency of any policy of insurance of the Borrower and shall not be responsible for monitoring or reviewing any policy of insurance of the Borrower or be obligated to file claims or proofs of loss in the case of insurance or to pay taxes or assessments.

(G) The Trustee is not responsible for filing financing or continuation statements.

(H) Subject to the provisions of Sections 5.05 and 10.03 hereof, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law or by this Indenture. The Trustee shall be under no liability for interest on any moneys received by it hereunder except such as it may agree with the Authority to pay thereon. Any interest allowed on any such moneys shall be deposited in the fund or account to which such moneys are credited. Any moneys held by the Trustee may be deposited by it in its banking department and invested as provided herein.

(I) The Trustee agrees to accept and act upon written instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods. If the Borrower elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. Absent the Trustee's negligence or willful misconduct, the Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. Absent the Trustee's negligence or willful misconduct, the Borrower agrees to assume all risks arising out of the use of such electronic methods by any person to submit written instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

SECTION 8.02. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (E) of Section 8.01 shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.03. Liability of Trustee. (A) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee shall assume no responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture or of the Bonds. In addition, the Trustee shall assume no responsibility with respect to this Indenture or the Bonds other than in connection with the duties or obligations

assigned to or imposed upon the Trustee herein or in the Bonds. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the Holder of Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders, whether or not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

The Trustee may execute any of the trusts or powers set forth herein and perform the duties required of it hereunder by or through attorneys, agents, or receivers and shall be entitled to the advice of counsel concerning all matters of trusts and its duties herein.

(B) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, director or employee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(C) The Trustee shall not be liable with respect to any action or inaction taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(D) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of this Indenture unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(E) The Trustee shall not be liable for any action or inaction taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(F) The Trustee shall not be deemed to have knowledge of any default or Event of Default hereunder unless and until it shall have actual knowledge thereof, or shall have received written notice thereof, at its Corporate Trust Office. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

(G) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers, other than to notify the Authority that it intends to take no particular action or to notify the Bondholders that it will take no action, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. The

Trustee shall, however, in any case, pay from funds held by it hereunder and available for such purpose, principal of and premium, if any, or interest on the Bonds as it becomes due and accelerate the Bonds as required by the Indenture, notwithstanding anything to the contrary herein.

(H) The Trustee shall have no responsibility, opinion or liability with respect to any information statement or recital found in any Official Statement or other disclosure material, prepared or distributed with respect to the issuance of the Bonds, except for information provided by the Trustee.

SECTION 8.04. Right of Trustee to Rely on Documents. The Trustee shall be protected, absent its own negligence or willful misconduct, in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority or the Borrower, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any Person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and its title thereto is satisfactorily established, if disputed.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

SECTION 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

SECTION 8.06. Compensation and Indemnification. The Authority shall pay to the Trustee, the Paying Agent and the Registrar (solely from Additional Payments) from time to time reasonable compensation for all services rendered under this Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under this Indenture, and the Trustee shall have a lien therefor on any and all funds (except the Rebate Fund and the moneys held for particular Bonds (including non-presented Bonds) and moneys held pursuant to Section 10.03) at any time held by it under this Indenture which lien shall be prior and superior to the lien of the Holders of the Bonds. The Authority further covenants and agrees, to the extent authorized by law, and solely from Additional Payments to indemnify and save the Trustee, the Paying Agent and the Registrar, harmless against any losses, expenses and liabilities which they

may incur arising out of or in the exercise and performance of its powers and duties hereunder, including the costs and expenses of defending against any claim of liability, but excluding liabilities which are due to the negligence or willful default of the indemnified party. The obligations of the Authority under this Section shall survive resignation or removal of the Trustee, the Paying Agent and the Registrar under this Indenture and payment of the Bonds and discharge of this Indenture.

SECTION 8.07. Paying Agent. The Authority, with the written approval of the Trustee, may appoint and at all times have a Paying Agent in such cities as the Authority deems desirable, for the payment of the principal of, and the interest (and premium, if any) on, the Bonds. It shall be the duty of the Trustee to make such credit arrangements with such Paying Agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of, and interest (and premium, if any) on, the Bonds presented at either place of payment. The Trustee will not be responsible for the failure of any party to make funds available to the Trustee or Paying Agent. The Trustee is the initial Paying Agent. If the Paying Agent is any entity other than the Trustee, (i) the Paying Agent may not hold any such funds and (ii) the Paying Agent shall be subject to the same standards and qualifications applicable to the Trustee as set forth in this Indenture.

SECTION 8.08. Notices to the Authority. The Trustee shall provide the Authority with the following:

(a) On or before June 15 of each year, commencing June 15, 2011, during which any of the Bonds are Outstanding, or upon any significant change that occurs which would adversely impact the Trustee's ability to perform its duties under the Indenture, a written disclosure of any such change, or if applicable, of any conflicts that the Trustee may have as a result of other business dealings between the Trustee and the Borrower. The Trustee may rely on a Certificate of the Borrower delivered pursuant to Section 5.9(d) of the Agreement to the extent of the information required in such certificate for purposes of this subparagraph (a). If there are not such instances of a significant change, or of a conflict existing, then a statement to that effect shall be provided on such date;

(b) If there is a failure to pay any amount of principal of, or premium, if any, or interest on any Bond when due; or if there is a failure of the Borrower to provide any notice, certification or report specified in Section 5.9 of the Agreement; or if there is an occurrence of any other Event of Default hereunder, of which the Trustee has knowledge, the Trustee shall provide written notice to the Authority within five Business Days of such failure or receipt of notice of the occurrence of such Event of Default and such notice from the Trustee shall include a statement setting forth the steps the Trustee is taking to remedy such failure or Event of Default, as applicable; and

(c) As of June 30 and December 31 of each year, a Trustee Audit Letter, in the form of Exhibit B attached hereto, which shall be received no later than December 15 or June 15 next following each such June 30 or December 31, as the case may be.

SECTION 8.09. Notices to Rating Agency. The Trustee shall provide any Rating Agency with written notice upon the occurrence of: (i) the discharge of liability on the Bonds pursuant to Section 10.02 hereof; (ii) the resignation or removal of the Trustee; (iii) acceptance of appointment as successor Trustee hereunder; (iv) the redemption of all Bonds; (v) a material change in the Indenture or the Loan Agreement; and (vi) when the Bonds are no longer Outstanding. The Trustee shall also notify any Rating Agency of any changes to any of the documents to which the Trustee is a party, upon its receipt of notification of any such changes.

SECTION 8.10. Appointment and Duties of Bond Registrar. The Authority hereby designates the Trustee as initial Bond Registrar. The Bond Registrar shall not be entitled to any compensation from the Authority or the Trustee but, rather, shall only be entitled to compensation from the Borrower.

SECTION 8.11. Eligibility of Bond Registrar. A Bond Registrar appointed pursuant to this Indenture shall be a corporation or association organized and doing business under the laws of the United States or any state or the District of Columbia, subject to supervision or examination by federal or state authority and shall either (i) have a combined capital and surplus of at least \$50,000,000 and be subject to supervision or examination by federal or state authority, or (ii) be a wholly-owned subsidiary of a bank, association, trust company or bank holding company meeting, on an aggregate basis, the tests set out in clause (i). If such bank, association, corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank, association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Bond Registrar or the bank, association, trust company or bank holding company of which the Bond Registrar is a wholly-owned subsidiary shall have a rating of at least Moody's "Baa3/P-3" or Fitch "BBB-/F3" or an equivalent rating from another Rating Agency, or be approved by the Rating Agency.

SECTION 8.12. Bond Registrar's Performance of Duties. The Bond Registrar shall perform the duties provided for in this Indenture and in exercising such duties shall be subject to the same standards and entitled to the same rights and immunities applicable to the Trustee as set forth in this Indenture and shall not be liable for any action or omission to act except for negligence or willful misconduct.

SECTION 8.13. Replacement of Bond Registrar. The Bond Registrar may resign by notifying the Authority, the Trustee and the Bondholders in writing at least 30 days before the effective date of such resignation. The Authority may remove the Bond Registrar at any time upon its own decision or upon Request of the Borrower or the Trustee, and shall remove the Bond Registrar if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Bond Registrar shall cease to be eligible in accordance with Section 8.17, or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or a receiver of the Bond Registrar or its property shall be appointed, or any public officer shall take control or charge of the Bond Registrar or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Bond Registrar and the Borrower and thereupon shall appoint, with the consent of the Borrower, a successor Bond Registrar by an instrument in writing. No resignation or removal shall be effective until the successor has delivered an acceptance of its appointment to the Trustee and the predecessor Bond Registrar.

In the event of the resignation or removal of the Bond Registrar, such Bond Registrar shall pay over, assign and deliver any moneys held by it as Bond Registrar to its successor, or if there is no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of the Bond Registrar, the Trustee shall act as such Bond Registrar to the extent it has operational capacity to perform such tasks.

**ARTICLE IX
MODIFICATION OR AMENDMENT OF THE INDENTURE**

SECTION 9.01. Amendments Permitted. (A) This Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Authority and the Trustee may enter into when the written consent of the Holders of not less than a majority in aggregate principal amount of all Bonds then Outstanding, shall have been filed with the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture, or deprive the Holders of the Bonds of the lien created by this Indenture on such Revenues and other assets (except as expressly provided in this Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to this subsection (A), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency then rating the Bonds and the Holders of the Bonds at the address shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(B) This Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Authority and the Trustee may enter into without the consent of any Bondholders, but only to the extent permitted by law and after receipt of an Opinion of Counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Holders of the Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority in this Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the Authority may deem necessary or desirable and not inconsistent with this Indenture;

(3) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or

(4) to modify, amend or supplement this Indenture in such a manner to permit the Authority, the Trustee, the Borrower or any other responsible party to comply with the requirements of S.E.C. Rule 15c2-12, as it may from time to time be amended or supplemented, with respect to the Bonds.

The Trustee shall give notice of any such modification or amendment to each Rating Agency then rating the Bonds.

(C) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (A) or (B) of this Section which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Any such Supplemental Indenture shall comply with the terms of this Article IX, and the Trustee and the Authority may conclusively rely on an Opinion of Counsel that the Supplemental Indenture complies with the provisions therein.

SECTION 9.03. Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Holder of any Bond Outstanding at the time of such execution and presentation of such Holder's Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Holders of any Bonds then Outstanding shall be exchanged at the Corporate Trust Office of the Trustee, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same maturity.

SECTION 9.04. Amendment of Particular Bonds. The provisions of this Article shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him or her, provided that due notation thereof is made on such Bonds.

ARTICLE X DEFEASANCE

SECTION 10.01. Discharge of Indenture. Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority and related to the Bonds:

- (a) by paying or causing to be paid the principal of, interest and premium, if any, on the Bonds Outstanding, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem all Bonds then Outstanding; or
- (c) by delivering to the Trustee, for cancellation by it, the Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable hereunder by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and the pledge of Revenues and other assets made under this Indenture and all covenants, agreements and other obligations of the Authority under this Indenture shall cease, terminate, become void and be completely discharged and satisfied except only as provided in Section 10.02 hereof. In such event, upon Request of the Authority, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to this Indenture (other than the Rebate Fund) which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption and any amounts owed to the Trustee hereunder to the Borrower, provided, however, that the Borrower may not receive any moneys held for the payment of particular Bonds (including moneys held for non-presented Bonds). All moneys or securities held by the Trustee in the Borrower Account of the Costs of Issuance Fund shall be transferred to the Borrower.

SECTION 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03 hereof) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, except only that the Holder thereof shall thereafter be entitled to payment of the principal of, premium, if any,

and interest on such Bond by the Authority, and the Authority shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment and such money or securities shall be pledged to such payment; provided further, however, that the provisions of Section 10.04 hereof shall apply in all events.

The Authority or the Borrower may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority or the Borrower may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

SECTION 10.03. Deposit of Money or Securities With Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Indenture (exclusive of the Rebate Fund and the Borrower Account of the Costs of Issuance Fund) and shall be:

(a) Moneys in an equal amount to the principal amount of such Bonds, and all unpaid interest thereon to maturity except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Investment Securities of the type described in clause (i) (including funds described in clause (iv)(i) rated Fitch/S&P "AAA" or equivalent which consist solely of securities described in clause (i)) of the definition of Investment Securities which are nonredeemable and noncallable, the principal of and interest on which when due and without reinvestment will provide money sufficient to pay the principal of, premium, if any, all unpaid interest to maturity, or to the redemption date, on the Bonds to be paid or redeemed, as such principal and interest become due, with maturities no longer than as may be necessary to make the required payment on the Bonds provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Request of the Authority) to apply such money or Investment Securities to the payment of such principal, premium, if any, and interest with respect to such Bonds and provided further that each Rating Agency then rating such Bonds, the Authority and the Trustee shall have received a report of an Accountant that the moneys or Investment Securities on deposit are sufficient to pay the principal, premium, if any, and interest on the Bonds to maturity or the redemption date.

SECTION 10.04. Payment of Bonds After Discharge of Indenture Obligation. Notwithstanding any provisions of this Indenture, any moneys deposited with the Trustee in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed after

the principal of any Bond has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in this Indenture), shall be disposed of as provided by law and the Holders of such Bonds shall thereafter be entitled to look only to the transferee of such moneys (presently the State Controller) for payment thereof, and all liability of the Trustee with respect to such moneys shall thereupon cease.

ARTICLE XI MISCELLANEOUS

SECTION 11.01. Liability of Authority Limited to Revenues. Notwithstanding anything in this Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. The Authority shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Loan Agreement, the Bonds or this Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under the Loan Agreement; provided the Borrower shall not be required to pay the fees and expenses of the Authority's counsel incurred in connection with the issuance of the Bonds.

SECTION 11.02. Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture either the Authority or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Authority or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not. All the covenants, stipulations, promises and agreements in this Indenture contained, by or on behalf of the Authority, shall bind and inure to the benefit of its successors and assigns, whether so expressed or not. If any of the powers or duties of the Authority shall hereafter be transferred by any law of the State of California, and if such transfer shall relate to any matter or thing permitted or required to be done under this Indenture by the Authority, then the body or official of the State of California who shall succeed to such powers or duties shall act and be obligated in the place and stead of the Authority as in this Indenture provided.

SECTION 11.03. Limitation of Rights to Parties and Bondholders. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Authority, the Trustee, the Borrower and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the Borrower and the Holders of the Bonds.

SECTION 11.04. Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 11.05. Destruction of Bonds. The Trustee shall cancel all securities surrendered for registration, transfer, exchange, payment or cancellation and shall dispose of such canceled securities in a manner deemed appropriate by the Trustee in accordance with its retention policy then in effect.

SECTION 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

SECTION 11.07. Governing Law; Venue. This Indenture shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. This Indenture shall be enforceable in the State, and any action arising out of this Indenture shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Authority waives this requirement in writing.

SECTION 11.08. Notices. Notices shall be delivered to each Bondholder by first-class mail, postage prepaid, at the address set forth for such Bondholder on the registration books of the Trustee. Any notice to or demand upon the Trustee may be served or presented, and such demand may be made, at the Corporate Trust Office of the Trustee, which at the date of adoption of this Indenture is located at the following address:

Wells Fargo Bank, National Association
333 Market Street, 18th Floor
MAC A0119-181
San Francisco, CA 94105
Attn: Corporate Trust Department
Fax Number: (415) 371-3400

or at such other address as may have been filed in writing by the Trustee with the Authority. Any notice to or demand upon the Authority, the Borrower or the Rating Agency shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by telex or facsimile or by being deposited, postage prepaid, in a post office letter box, addressed, as the case may be, as follows:

To the Authority:

California Pollution Control Financing Authority
915 Capitol Mall, Room 457
Sacramento, CA 95814
Attn: Executive Director
Fax Number: (916) 657-4821

To the Borrower:

San Jose Water Company
110 West Taylor Street
San Jose, CA 95110
Attn: Executive Vice President-Finance
Fax Number: (408) 279-7934

To the Rating Agency:

Standard and Poor's Ratings Services
55 Water Street, 38th Floor
New York, NY 10041
Fax Number: (212) 438-2154

or such other addresses as may have been filed in writing with the Trustee.

SECTION 11.09. Evidence of Rights of Bondholders. (a) Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the individual signing such request, consent or other instrument acknowledged to such notary public or other officer the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

(c) The ownership of registered Bonds shall be proved by the bond registration books held by the Trustee. The Trustee and the Authority may conclusively assume that such ownership continues until written notice to the contrary is served upon the Trustee. The fact and the date of execution of any request, consent or other instrument and the amount and distinguishing numbers of Bonds held by the Person so executing such request, consent or other instrument may also be proved in any other manner which the Trustee may deem sufficient. The Trustee may nevertheless, in its discretion, require further proof in cases where it may deem further proof desirable.

Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

SECTION 11.10. Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the Authority or the Borrower, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Borrower or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination unless all Bonds are so held; provided that, for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned shall be disregarded. The Trustee shall not be deemed to have knowledge that any Bond is disqualified unless the Authority or the Borrower is the Holder or the Trustee has received written notification of a Bond so owned or disqualified. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Borrower or any other obligor on the Bonds. Upon the written request of the Trustee, the Authority and the Borrower shall each certify to the Trustee those Bonds disqualified pursuant to this Section and the Trustee may conclusively rely on such Certificates. Notwithstanding the foregoing, with respect to the Certificate of the Authority, the Authority shall be required to specify only those Bonds that are owned or held by or for the account of the Authority or any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority, if any, of which the officer signing the Certificate on behalf of the Authority has actual knowledge. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 11.11. Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held by it uninvested in trust for the Holders of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04 hereof.

SECTION 11.12. Funds and Accounts; Business Day.

(a) Any fund or account required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with corporate trust industry standards and with due regard for the

requirements of Section 6.05 hereof and for the protection of the security of the Bonds and the rights of every Holder thereof. The Trustee may establish and maintain for as long as necessary one or more temporary funds or accounts under this Indenture in order to carry out the purposes set forth therein.

(b) Any payment or transfer which otherwise would become due on any day which is not a Business Day shall become due or shall be made on the next Business Day, with the same effect as if it had been made on the due date.

SECTION 11.13. Waiver of Personal Liability. No member, officer, agent or employee of the Authority, and no officer, official agent or employee of the State of California or any department, board or agency of the foregoing shall be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

SECTION 11.14. Opinion of Bond Counsel. Whenever in this Indenture or in the Loan Agreement it is required that prior to the taking of any action (including but not limited to any modifications of arbitrage covenants contained in Sections 5.05 and 6.06 hereof) an opinion of Bond Counsel is required to be delivered to the effect that such action will not, in and of itself, adversely affect the Tax-exempt status of the Bonds, and such opinion is not given by Leslie M. Lava, Esq., the Authority or the Borrower shall not be entitled to rely on or refer to the original final bond opinion delivered by Leslie M. Lava, Esq. on the Delivery Date in connection with the remarketing of the Bonds or in any other context without the consent of Leslie M. Lava, Esq. It is suggested that such successor Bond Counsel also render an opinion that interest on the Bonds is Tax-exempt and will remain so after the action in question.

SECTION 11.15. Complete Agreement. The parties agree that the terms and conditions of this Indenture supersede those of all previous agreements between the parties relative to the Bonds, and that this Indenture, together with the documents referred to in this Indenture, contains the entire agreement between the parties hereto relative to the Bonds.

SECTION 11.16. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY has caused this Indenture to be signed in its name and its facsimile seal to be hereunto affixed and attested by its authorized officers, and WELLS FARGO BANK, NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by one of the officers thereunto duly authorized all as of the day and year first above written.

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

By Bill Lockyer, Chairman

By: _____ /s/ Bill Lockyer
Deputy Treasurer

By: _____ /s/ Michael Paparian
Executive Director

[Seal]

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee

By: _____ /s/ Karen Mitani
Authorized Officer

EXHIBIT A
FORM OF BOND
UNITED STATES OF AMERICA
STATE OF CALIFORNIA

No. RA-1

\$50,000,000

CALIFORNIA POLLUTION CONTROL
FINANCING AUTHORITY
REVENUE BONDS
(SAN JOSE WATER COMPANY PROJECT)
SERIES 2010A

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THIS BOND.

<u>MATURITY DATE</u>	<u>DATED</u>	<u>INTEREST RATE</u>	<u>CUSIP</u>
June 1, 2040	Date of Delivery	5.10%	13053CAB8

Registered Owner: CEDE & CO.

Principal Amount: FIFTY MILLION DOLLARS

The California Pollution Control Financing Authority, a public instrumentality and political subdivision of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of Revenues as hereinafter provided) to the registered owner identified above or registered assigns, on the maturity date set forth above, the principal sum set forth above and to pay (but only out of Revenues as hereinafter provided) interest on the balance of said principal amount from time to time remaining unpaid from and including the date hereof until payment of said principal amount has been made or duly provided for, at the interest rate set forth above and on the dates determined as described herein and in the Indenture (as hereinafter defined), and to pay (but only out of Revenues as hereinafter provided) interest on overdue principal and, to the extent permitted by law, on overdue interest at the rate borne by this Bond on the date on which such principal or interest became due and payable, except as the provisions hereinafter set forth with respect to redemption prior to maturity or purchase may become applicable hereto. The principal of and premium, if any, on this Bond are payable at final maturity, acceleration or redemption in lawful money of the United States of America upon surrender hereof at the Corporate Trust Office of Wells Fargo Bank, National Association, as Trustee, or its successor in trust (the "Trustee"). Interest payments on this Bond shall be made on each Interest Payment Date (as defined below)

commencing December 1, 2010, to the Person appearing on the bond registration books of the Trustee, as bond registrar (the “Bond Registrar”), as the Bondholder thereof on the Record Date, which is the date as of the close of business on the fifteenth day of the calendar month preceding any Interest Payment Date (the “Record Date”), and shall be paid (i) by check mailed on the Interest Payment Date to such Bondholder’s address as it appears on the registration books or at such other address as has been furnished to the Trustee as provided below, in writing by such Bondholder not later than the Record Date or (ii) upon written request, at least three Business Days prior to the applicable Record Date of the Bondholder of Bonds aggregating not less than \$1,000,000 in principal amount, by wire transfer in immediately available funds at an account maintained in the United States at such wire address as such Bondholder shall specify in its written notice; except, in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the Bondholder in whose name any such Bonds are registered at the close of business on the fifth Business Day next preceding the date of payment of such defaulted interest.

This Bond is a duly authorized issue of bonds of the Authority designated as “California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project) Series 2010A” (the “Bonds”), limited in aggregate principal amount as set forth above, issued pursuant to the provisions of Division 27 of the California Health and Safety Code as amended and supplemented (the “Act”) and issued under and secured by the Indenture (as hereinafter defined). The Bonds are limited obligations of the Authority and, as and to the extent set forth in the Indenture, are payable solely from, and secured by a pledge of and lien on, the Revenues. Proceeds from the sale of the Bonds will be loaned by the Authority to San Jose Water Company, a California corporation (the “Borrower”), under the terms of a Loan Agreement, dated as of June 1, 2010 (the “Agreement”), between the Authority and the Borrower. The Bonds are all issued under and secured by and entitled to the benefits of an Indenture, dated as of June 1, 2010 (the “Indenture”), between the Authority and the Trustee; all receipts of the Trustee credited under the provisions of the Indenture against such payments; and from any other moneys held by the Trustee under the Indenture for such purpose (all of the foregoing, the “Revenues”), and there shall be no other recourse against the Authority or any property now or hereafter owned by it.

Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights thereunder of the registered Bondholders of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Authority thereunder, to all of the provisions of which Indenture and of the Agreement the Holder of this Bond, by acceptance hereof, assents and agrees.

All terms not herein defined shall have the meanings ascribed to them in the Indenture.

The Bonds are issuable as fully registered bonds without coupons in Authorized Denominations of \$5,000 or any integral multiple thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged at the Corporate Trust Office of the Trustee, for a like aggregate principal amount of Bonds of other Authorized Denominations of like maturity.

This Bond is transferable by the Bondholder hereof, in person, or by its attorney duly authorized in writing, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new fully registered Bond or Bonds, in an Authorized Denomination or Denominations, for the same aggregate principal amount, and of like maturity, will be issued to the transferee in exchange therefor. The Authority and the Trustee may treat the Bondholder hereof as the absolute Bondholder hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

Interest on the Bonds

Interest on the Bonds shall be paid at the rate set forth above on each June 1 and December 1, commencing December 1, 2010 (each, an “Interest Payment Date”); provided that if any Interest Payment Date is not a Business Day, such interest (and any principal due) shall be mailed or wired as provided above on the next succeeding Business Day with the same effect as if made on the day such payment was due. Interest on the Bonds shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months. The Bonds shall bear interest from and including the Date of Delivery (as defined in the Indenture) until payment of the principal or redemption price thereof has been made or provided for, whether at maturity, upon redemption or otherwise.

“Business Day” means any day other than (i) a Saturday, Sunday or legal holiday in the State of California, (ii) a day on which commercial banks in New York, New York or the city or cities in which the Corporate Trust Office of the Trustee are located are authorized or required by law to close, or (iii) a day on which the New York Stock Exchange is closed.

Optional Redemption of Bonds

The Bonds shall also be subject to redemption, in whole or in part, on any date on or after June 1, 2020 at a redemption price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the date of redemption, if any.

Mandatory Sinking Fund Redemption

The Bonds are not subject to mandatory sinking fund redemptions.

Mandatory Redemption Upon Invalidity

In the event of a prepayment pursuant to Section 7.3(a) of the Agreement as a result of invalidity, the Bonds Outstanding on the date of the occurrence of the invalidity shall be redeemed in whole at any time within 30 days thereafter, at a redemption price of 100% of the principal amount thereof, without premium, plus accrued interest to the date of redemption. No redemption of the Bonds shall be made pursuant to any of the other redemption provisions of the Indenture following invalidity.

Mandatory Redemption Upon a Determination of Taxability

In the event of a prepayment pursuant to Section 7.3(b) of the Agreement as a result of a Determination of Taxability, the Bonds Outstanding on the date of the occurrence of the Determination of Taxability shall be redeemed, in whole or in part, at any time within 30 days thereafter, at a redemption price of 100% of the principal amount thereof, without premium, plus accrued interest to the date of redemption. No redemption of the Bonds shall be made pursuant to any of the other provisions of the Indenture following a Determination of Taxability.

The Holder of this Bond shall have no right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, except as provided in the Indenture.

No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained, against any past, present or future member, director, officer, employee or agent of the Authority, or through the Authority, or any successor to the Authority, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such member, director, officer, employee or agent as such is hereby expressly waived and released as a condition of and in consideration for the execution of the Indenture and the issuance of any of the Bonds.

The Indenture contains provisions permitting the Authority and the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding, to execute supplemental indentures, or add any provisions to, or change in any manner, or eliminate any of the provisions of, the Indenture; provided, however, that no such supplemental indenture, alteration or modification shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. Under certain circumstances described in the Indenture, the Trustee and the Authority may enter into a Supplemental Indenture without consent of Holders.

The Indenture prescribes the manner in which it may be discharged and after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of payment of the principal of and premium, if any, and interest on the Bonds as the same become due and payable, including a provision that under certain circumstances the Bonds shall be deemed to be paid if certain securities, as defined in the Indenture, maturing as to principal and interest in such amounts and at such times as to insure the availability of sufficient moneys to pay the principal of, premium, if any, and interest on such Bonds and all necessary and proper fees, compensation and expenses of the Trustee shall have been deposited with the Trustee.

No member or officer of the Authority, nor any individual executing this Bond, shall in any event be subject to any personal liability or accountability by reason of the issuance of the Bonds.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Constitution and statutes of the State of California.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

[REST OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, California Pollution Control Financing Authority has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Chairman and its seal to be affixed hereto, all as of the above date.

[SEAL]

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

By _____
Chairman

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

Dated: _____.

This is one of the Bonds described in the within-mentioned Indenture.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as
Trustee

By _____
Authorized Signature

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to Issuer or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof Cede & Co., has an interest herein.

[FORM OF ASSIGNMENT]

For value received the undersigned do(es) hereby sell, assign and transfer unto _____ [name, address and tax i.d. number of transferee] the within-mentioned Registered Bond and do(es) hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the Trustee with full power of substitution in the premises.

Dated: _____, _____

- Note: The signature(s) to this Assignment must correspond with the name(s) as written on the face of the within Registered Bond in every particular, without alteration or enlargement or any change whatsoever.
- Note: Signature(s) must be guaranteed by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

EXHIBIT B

TRUSTEE AUDIT LETTER (Trustee Completes)

[Name of Trust Officer]
Wells Fargo Bank, National Association
333 Market Street, 18th Floor
MAC A0119-181
San Francisco, CA 94105
Attn: Corporate Trust Department

Attn:

1. Description of Bond Issue	Principal Amount Issued	Bonds Outstanding as of June 30, ____ or December 30, ____, as applicable
2. The above information _____ agrees _____ does not agree with our records. Please identify differences and documentation of details.		
3. During the past six months, did the Borrower or Guarantor, if any, make all required payments to the Trustee at the proper time and in the manner required by the Indenture?		
Yes _____ No _____		
4. If the Borrower or Guarantor, if any, failed to make required payments, please attach copies of any correspondence between the Trustee and the Borrower or Guarantor, if any, discussing the failure and any steps to correct such failure.		
5. Has the Trustee received a copy of the latest annual financial statements of the Borrower or Guarantor, if any, within 120 days of the close of the applicable fiscal year?		
Yes _____ No _____ Not Required _____ Not Applicable _____		
6. If required under the terms of the Indenture, has the Trustee received a certificate of an officer of the Borrower or Guarantor, if any, signed within 120 days of the close of the fiscal year, stating whether there exists any default under the Loan Agreement, and if a default exists, what the default is, what steps have been or will be taken to correct the default?		
Yes _____ No _____ Not Required _____		

7. If a letter of credit or other credit enhancement supports this bond issue, will such letter of credit or other credit enhancement continue in full force during the next 12 months?
Yes _____ No _____ Not Applicable _____
8. Has the Trustee received a copy of the Borrower's annual rebate calculations prepared by or on behalf of the Borrower? Yes _____ No _____ Not Applicable _____
If no, and the Trustee has any actual knowledge of why it did not receive such calculations, please explain on a separate page.
Yes _____ No _____ Not Applicable _____
9. Has the Trustee received a Final Project Completion Certificate from the Borrower?
Yes _____ No _____ Not Applicable _____
10. Has a Certificate of the Borrower been received stating that its Financial Statements have been completed?
Yes _____ No _____ Not Applicable _____
11. Has Borrower provided Project Fund Requisitions with accompanying invoices (if required), approved by the Borrower, to the Trustee?
Yes _____ No _____ Not Applicable _____
12. Has Borrower provided Cost of Issuance Fund Requisitions with accompanying invoices (if required), approved by the Borrower to the Trustee?
Yes _____ No _____ Not Applicable _____
13. Has the Trustee been notified by the Borrower of any conflicts that the Trustee may have as a result of other business dealings between the Trustee and the Borrower and, if so, has the Trustee sent a letter to the Authority informing them about this matter?
Yes _____ No _____ Not Applicable _____

If you answered "No" to any of the above, please explain on a separate paper.

By _____
Authorized Signature

Date _____

Title _____

Phone No. _____

EXHIBIT C

FORM OF PROJECT FUND REQUISITION

REQUISITION FOR MONEY FROM THE PROJECT FUND

To: Wells Fargo Bank, National Association, as trustee
333 Market Street, 18th Floor
MAC A0119-181
San Francisco, CA 94105
Attn: Corporate Trust Department

Re: California Pollution Control Financing Authority
Revenue Bonds
(San Jose Water Company Project)
Series 2010A (the "Bonds")
Requisition No. ___ Project Fund

The undersigned, on behalf of San Jose Water Company (the "Borrower"), hereby requests payment, from the Project Fund identified above for the Project identified above, the total amount shown below to the order of the payee or payees named below, as payment or reimbursement for costs incurred or expenditures made in connection with such Project. The payee(s), the purpose and the amount of the disbursement requested are as follows and as stated in the attached invoice(s) (no payment to be made without an accompanying invoice):

<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
[name and address]		
		Total \$

The undersigned hereby certifies as follows:

1. Of the payment requested, \$_____ constitute costs that (A) were preliminary expenditures (architectural, engineering, surveying, soil testing, costs of issuing the Bonds and similar costs paid with respect to the Project in an aggregate amount not exceeding 20% of the aggregate principal amount of the Bonds, but do not include land acquisition, site preparation or similar costs incident to the commencement of construction) or (B) (i) were paid or incurred by the Borrower on or after 60 days prior to March 24, 2010 and were not placed in service prior to December 16, 2008, (ii) have been used to finance the acquisition, construction, rehabilitation, renovation or improvement of land and buildings and the acquisition and installation of machinery and equipment constituting a qualified water project, as defined in Section 142(a) of the Internal Revenue Code of 1986 (the "Code") and Section 1.103-8(h) of the Treasury Regulations thereunder,

all of which property other than land is of a character subject to the allowance for depreciation under Section 167 of the Code, and (iii) are chargeable to the capital account of the Project or would be so chargeable either with a proper election by the Borrower or but for proper election by the Borrower to deduct such costs, within the meaning of Treasury Regulation 1.103-8(a)(1); and if any such payment is to be made to a "related person" of the Borrower within the meaning of Section 147(a) of the Code, such payment represents only the actual out-of-pocket costs incurred by such related person in connection with the Project and does not include any intercompany profits or payments for early completion. All of such costs are for items that are denominated "Good Costs".

2. Of the payment herein requested, \$_____ constitute costs not described in paragraph 1 and accordingly are denominated "Bad Costs." The sum of all Bad Costs paid to date from proceeds of the Bonds, together with the amount of Bad Costs herein requisitioned, including all Bond proceeds spent for costs of issuing such Bonds, does not exceed \$_____, which is 4% of the Bond proceeds and the earnings from investing and reinvesting such earnings, unless this requisition is accompanied with an opinion of Bond Counsel allowing a greater amount of Bond proceeds to be spent for Bad Costs.

3. Each obligation mentioned herein is described in Section 3.2 of the Loan Agreement relating to the Project, has been properly incurred and is a proper charge against the Project Fund, and each item for which payment is requested is or was necessary in connection with the acquisition, construction, renovation, installation, improvement or equipping of the Project. None of the items for which payment is requested has been reimbursed previously from the Project Fund, and none of the payments herein requested will result in a breach of the representations and agreements in Section 2.3 of the Loan Agreement relating to the Project. At least 96% of the amount requisitioned, together with all amounts requisitioned to date, have in the aggregate been used to pay for or to reimburse the Borrower for expenditures properly allocable to Costs of the Project. An invoice representing each item for payment as required by Section 3.2(c) of the Loan Agreement is attached hereto.

Terms which are used in this Requisition and not otherwise defined are used as defined in the Indenture (as defined in the Tax Certificate).

Dated: _____

SAN JOSE WATER COMPANY

By _____
Authorized Representative

EXHIBIT D

FORM OF COSTS OF ISSUANCE FUND REQUISITION

REQUISITION FOR MONEY FROM THE COSTS OF ISSUANCE FUND

To: Wells Fargo Bank, National Association, as trustee
333 Market Street, 18th Floor
MAC A0119-181
San Francisco, CA 94105
Attn: Corporate Trust Department

Re: California Pollution Control Financing Authority
Revenue Bonds
(San Jose Water Company Project)
Series 2010A (the "Bonds")

Requisition No. ___ Account: Costs of Issuance Fund – _____ Account

The undersigned, on behalf of San Jose Water Company (the "Borrower"), hereby requests payment, from the Account of the Costs of Issuance Fund identified above, the total amount shown below to the order of the payee or payees named below, as payment or reimbursement for costs incurred or expenditures made in connection with the issuance of the Bonds. The payee(s), the purpose and the amount of the disbursement requested are as follows and as stated in the attached invoice(s) (no payment to be made without an accompanying invoice):

<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
[name and address]		
		Total \$

The undersigned hereby certifies as follows:

Each obligation mentioned herein is described in Section 3.2 of the Loan Agreement relating to the Project, has been properly incurred and is a proper charge against the Costs of Issuance Fund, and each item for which payment is requested is or was necessary in connection with the issuance of the Bonds. None of the items for which payment is requested has been reimbursed previously from the Costs of Issuance Fund, and none of the payments herein requested will result in a breach of the representations and agreements in Section 2.3 of the Loan Agreement relating to the Project. Invoices evidencing each obligation mentioned herein are attached hereto.

Dated: _____

SAN JOSE WATER COMPANY

By _____
Authorized Representative

Attachment: Invoices for each listed obligation

LOAN AGREEMENT

between

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

and

SAN JOSE WATER COMPANY

Dated as of June 1, 2010

relating to

\$50,000,000

California Pollution Control Financing Authority

Revenue Bonds

(San Jose Water Company Project)

Series 2010A

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LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of June 1, 2010 (this "Agreement") between CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY, a public instrumentality and political subdivision of the State of California (the "Authority"), and SAN JOSE WATER COMPANY, a California corporation (the "Borrower").

WITNESSETH:

WHEREAS, the Authority is a public instrumentality and political subdivision of the State of California, created by the California Pollution Control Financing Authority Act (constituting Division 27 of the Health and Safety Code of the State of California as now in effect and as it may from time to time hereafter be amended or supplemented) (the "Act") and authorized to finance the acquisition, construction, renovation, installation, improvement and equipping of water facilities constituting a "project" within the meaning of the Act, including those that will prevent the pollution of drinking water or improve the quality of water or ensure the safe handling, recycling or disposal of materials that might otherwise be improperly disposed of; and

WHEREAS, the Authority is further authorized to issue its bonds for the purpose of paying all or any part of the costs of a project, and for any other authorized purpose; to acquire and hold property, including funds, project agreements and other obligations of any kind, and pledge, encumber or assign the same, or the revenues therefrom or any portion of such revenues, or other rights, whether then owned or possessed, or thereafter acquired, for the benefit of the owners, and as security or additional security for any bonds or the performance of obligations under an indenture; to provide for the advance of bond proceeds and other funds pursuant to project agreements as necessary to pay or reimburse for project costs; and to enter into loan agreements; and

WHEREAS, the Borrower, has duly caused an application to be filed with the Authority for financial assistance to finance the acquisition, construction, renovation, installation, improvement and equipping of certain water facilities that will prevent the pollution of drinking water or improve the quality of water or ensure the safe handling, recycling or disposal of materials that might otherwise be improperly disposed of in the Cities of Cupertino, San Jose, Santa Clara, Campbell, Monte Sereno, Saratoga and Los Gatos and contiguous areas in the County of Santa Clara, California, as more particularly described in Exhibit A hereto (the "Project"), which facilities qualify as a "project" under the Act; and

WHEREAS, the Authority after due investigation and deliberation has adopted its resolutions approving said application and authorizing the making of a loan to the Borrower for the financing of the acquisition, construction, renovation, installation, improvement and equipping of the Project at such locations during the term of the Bonds (described below); and

WHEREAS, the Authority proposes to issue its California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project) Series 2010A (the "Bonds"), in the aggregate principal amount of \$50,000,000, to finance a portion of the cost of the acquisition, construction, renovation, installation, improvement and equipping of the Project upon the terms and conditions set forth herein; and

WHEREAS, the Authority will enter into an Indenture, dated as of June 1, 2010 (the "Indenture"), with Wells Fargo Bank, National Association, as trustee (the "Trustee"), pursuant to which the Bonds will be issued;

NOW, THEREFORE, for and in consideration of the premises and the material covenants hereinafter contained, the parties hereto hereby formally covenant, agree and bind themselves as follows:

ARTICLE I DEFINITIONS

SECTION 1.1. Definition Of Terms. Unless the context otherwise requires, the terms used in this Loan Agreement shall have the meanings specified in Section 1.01 of the Indenture, as originally executed or as it may from time to time be supplemented or amended as provided therein.

SECTION 1.2. Number And Gender. The singular form of any word used herein, including the terms defined in Section 1.01 of the Indenture, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

SECTION 1.3. Articles, Sections, Etc. Unless otherwise specified, references to Articles, Sections and other subdivisions of this Loan Agreement are to the designated Articles, Sections and other subdivisions of this Loan Agreement as amended from time to time. The words "hereof," "herein," "hereby," "hereunder" and words of similar import refer to this Loan Agreement as a whole. The headings or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

ARTICLE II REPRESENTATIONS

SECTION 2.1. Findings of the Authority. The Authority makes the following findings:

(a) On March 24, 2010, the Authority gave its preliminary approval for the financing of the Project. On April 22, 2010, a public hearing with respect to the Bonds and the Project was held in accordance with the provisions of the Code. On May 26, 2010, the Authority adopted its resolution approving financing of the Project.

(b)(i) The Borrower is a "participating party" as such term is defined in the Act; (ii) the Project is a "project" as such term is defined in the Act; (iii) the loan to be made hereunder with the proceeds of the Bonds will promote the purposes of the Act by providing funds to finance the acquisition, construction, renovation, installation, improvement and equipping of the Project; (iv) said loan is in the public interest, serves the public purposes and meets the requirements of the Act; and (v) the portion of such loan allocable to the Costs of the Project does not exceed the total cost thereof as determined by the Borrower and approved by the Authority.

(c) No member of the Authority, or any officer or employee of the Authority who participated in the making of this Loan Agreement, is financially interested (within the meaning of Government Code Section 1090) in the Borrower or in this Loan Agreement or the Indenture.

SECTION 2.2. Representations of the Authority. The Authority makes the following representations as the basis for its undertakings herein contained:

(a) The Authority is a public instrumentality and political subdivision of the State of California. Under the provisions of the Act, the Authority has the power to enter into the transactions contemplated by this Loan Agreement and the Indenture and to carry out its obligations hereunder. By proper action, the Authority has duly authorized the execution and delivery of this Loan Agreement and the Indenture and the performance of its obligations thereunder.

(b) The representations of the Authority in the Tax Certificate are true and correct as of the date hereof (subject to the qualifications set forth, and in reliance upon the sources of information described, in the Tax Certificate).

(c) The Authority will issue the Bonds under, and the Bonds will be secured by, the Indenture, pursuant to which the Authority's interest in this Loan Agreement (except certain rights of the Authority to payment for fees and expenses and its rights to indemnification, inspection, enforcement; and consent and receipt of notices, certificates and opinions) will be pledged to the Trustee as security for payment of the principal of, premium, if any, and interest on the Bonds, as provided in the Indenture.

(d) The Authority has not pledged and will not pledge its interest in this Loan Agreement for any purpose other than as provided in the Indenture.

(e) The Authority is not in default under any of the provisions of the laws of the State of California, which default would affect its existence or its powers referred to in subsection (a) of this Section 2.2.

SECTION 2.3. Representations and Warranties of the Borrower. The Borrower makes the following representations and warranties as the basis for its undertakings herein contained:

(a) The Borrower is a corporation duly organized and existing under the laws of the State of California, is in good standing in the State of California, has duly authorized, by proper action, the execution and delivery of this Loan Agreement and all other documents contemplated hereby to be executed by the Borrower and has the power to enter into and consummate the transactions contemplated by this Loan Agreement and all other documents contemplated hereby to be executed by the Borrower. This Loan Agreement has been duly authorized, executed and delivered by the Borrower. This Loan Agreement, when assigned to the Trustee pursuant to the Indenture, will constitute the legal, valid and binding agreement of

the Borrower enforceable against the Borrower by the Trustee in accordance with its terms for the benefit of the Holders of the Bonds, and any rights of the Authority and obligations of the Borrower not so assigned to the Trustee constitute the legal, valid, and binding agreement of the Borrower enforceable against the Borrower by the Authority in accordance with its terms; except in each case as enforcement may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, by the application of equitable principles regardless of whether enforcement is sought in a proceeding at law or in equity and by public policy.

(b) Neither the execution and delivery of this Loan Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions hereof, conflicts with or results in a breach of any of the terms, conditions or provisions of the Borrower's Articles of Incorporation or Bylaws or of any material actions or of any material agreement or instrument to which the Borrower is now a party or by which it is bound, or constitutes a default (with due notice or the passage of time or both) under any of the foregoing.

(c) No consent or approval of any trustee or holder of any indebtedness of the Borrower or any guarantor of indebtedness of or other provider of credit or liquidity of the Borrower, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except (i) with respect to any state securities or "blue sky" laws or (ii) for the construction, use or operation of the Project which are expected by the Borrower to be obtained prior to the construction, use or operation of the Project) is necessary in connection with the execution and delivery of this Loan Agreement or the consummation of any transaction herein contemplated, or the fulfillment of or compliance with the terms and conditions hereof, except as have been obtained or made and as are in full force and effect.

(d) There is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other governmental authority, pending, or to the knowledge of the Borrower, after reasonable investigation, threatened, against or affecting the Borrower or the assets, properties or operations of the Borrower which, if determined adversely to the Borrower or its interests, would have a material adverse effect upon the consummation of the transactions contemplated by, or the validity of, this Loan Agreement, and the Borrower, to the best of its knowledge after reasonable inquiry, is not in default (and no event has occurred and is continuing which with the giving of notice or the passage of time or both could constitute a default) with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Loan Agreement. The Borrower enjoys the peaceful and undisturbed possession of all of the premises upon which it is operating the Project, subject only to such rights of way, easements or other interests as do not materially and adversely affect the Borrower's operation and use thereof.

(e) The Costs of the Project are as set forth in the Tax Certificate dated the Date of Delivery and have been determined in accordance with standard engineering/construction and accounting principles. All the information and representations in the Tax Certificate are true and correct as of the date thereof.

(f) Upon completion, the Project will consist of various equipment and facilities described in Exhibit A.

(g) The Borrower has and will have title to or the right to use the property comprising the Project sufficient to carry out the purposes of this Loan Agreement.

(h) All certificates, approvals, permits and authorizations of applicable local governmental agencies, the State of California and the federal government which are necessary prior to the commencement of the construction, use or operation of the Project either have been obtained and continue in force or are expected by the Borrower to be obtained prior to the construction, use or operation of the Project.

(i) No event has occurred and no condition exists which would constitute an Event of Default (as defined in the Indenture) or which, with the passage of time or with the giving of notice or both would become such an Event of Default.

(j) To the best of the knowledge of the Borrower, no member, officer, or other official of the Authority has any financial, ownership or managerial interest in the Borrower, any affiliate of the Borrower, this Loan Agreement or the Indenture or in the transactions contemplated by this Loan Agreement or the Indenture.

(k) The Borrower and all Persons anticipated by the Borrower to be an owner or operator of the Project or a portion thereof are engaged in operations within California that require financing pursuant to this Loan Agreement and the Act to aid and assist in the control, remediation or elimination of pollution of the environment of the State of California.

(l) The Project constitutes a "project" and the Borrower is a "participating party," as such terms are defined in the Act.

(m) The Borrower is a "Small Business" as classified pursuant to Title 13 Code of Federal Regulations, Part 121 (1994 edition) or (together with its affiliates) employs no more than 500 employees.

(n) No disbursement to be paid or reimbursed from proceeds of the Bonds shall have been previously paid or reimbursed from the proceeds of any other Governmental Obligation, whether issued by the Authority or any other party.

ARTICLE III
CONSTRUCTION OF THE PROJECT; ISSUANCE OF THE BONDS

SECTION 3.1. Agreement To Construct the Project; Modifications of the Project.

(a) The Borrower agrees that it will acquire, construct, renovate, improve, install and equip, or complete the acquisition, construction, renovation, improvement, installation and equipping of, the Project, and will acquire, construct, renovate, improve, install and equip all other facilities and real and personal property deemed necessary for the operation of the Project, in accordance with the description of the Project prepared by the Borrower and approved by the Authority, including any and all supplements, amendments and additions or deletions thereto or

therefrom. The Borrower further agrees to proceed with due diligence to complete the Project within three years from the Date of Delivery. Except as otherwise permitted pursuant to this Section 3.1 or Section 5.2(a)(iv), the Borrower also agrees that it will own the Project during the term of this Loan Agreement or, if shorter, the useful life of any component of the Project. The Borrower also agrees that it will operate the Project (except such portion that is transferred to a Person other than a Participating Affiliate in accordance with Section 5.2) during the term of this Loan Agreement or, if shorter, the useful life of any component of the Project.

(b) In the event that the Borrower desires to alter or change the Project described in Exhibit A hereto, the Borrower must first obtain the consent of the Authority (which consent shall not be unreasonably withheld) to such changes. If the Authority consents to the proposed amendment or supplement, it will instruct the Trustee in writing to consent to, such amendment or supplement to Exhibit A as shall be required to reflect such alteration or change to the Project upon receipt of:

(i) a Certificate of the Borrower describing in detail the proposed changes and stating that they will not have the effect of disqualifying the Project as facilities that may be financed pursuant to the Act;

(ii) a copy of the form of amended or supplemented Exhibit A hereto approved by the Authority; and

(iii) an Approving Opinion with respect to such proposed changes.

SECTION 3.2. Disbursements From The Project Fund; Disbursements From The Costs Of Issuance Fund.

(a) The Borrower will authorize and direct the Trustee, upon compliance with Section 3.03 of the Indenture, to disburse the moneys in the Project Fund to or on behalf of the Borrower only for the following purposes (and not for Costs of Issuance), subject to the provisions of Section 3.3 hereof:

(i) Payment to the Borrower of such amounts, if any, as shall be necessary to reimburse the Borrower in full for all advances and payments made by it, at any time prior to or after the delivery of the Bonds, in connection with (A) the preparation of plans and specifications for the Project (including any preliminary study or planning of the Project or any aspect thereof) and (B) subject to any limitation imposed by subsection (vi) hereof, the acquisition, construction, renovation, improvement, installation and equipping of the Project.

(ii) If the Project includes the construction or rehabilitation of a building, payment for labor, services, materials and supplies used by or furnished to the Borrower to improve the site and to acquire, construct, renovate, improve, install and equip the Project, as provided in the plans, specifications and work orders therefor; payment of the costs of acquiring, equipping, constructing, and installing utility services or other related facilities; payment of the costs of acquiring all real and personal property deemed necessary to construct the Project; insurance during the construction period; and payment of the miscellaneous expenses incidental to any of the foregoing items.

(iii) Payment of the fees, if any, of architects, engineers, legal counsel and supervisors expended in connection with the acquisition, construction, renovation, improvement, installation and equipping of the Project.

(iv) If the Project includes the construction of a building, payment of taxes including property taxes, assessments and other charges, if any, that may become payable during the construction period with respect to the Project, or reimbursement thereof, if paid by the Borrower.

(v) Payment of expenses incurred in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the acquisition, construction, renovation, improvement, installation or equipping of the Project.

(vi) Payment of any other Costs of the Project permitted by the Tax Certificate and the Act (including, without limitation, interest accruing on the Bonds during the construction period of the Project and reimbursement to the Borrower of costs of financing the Costs of the Project, but not including any Costs of Issuance).

All moneys remaining in the Project Fund after the Completion Date and after payment or provision for payment of all other items provided for in the preceding subsections (i) to (vi), inclusive, of this Section, shall be used in accordance with Section 3.03 of the Indenture.

Each of the payments referred to in this Section 3.2(a) shall be made upon receipt by the Trustee of a written requisition in the form prescribed by Section 3.03 of the Indenture, signed by an Authorized Representative of the Borrower.

(b) The Borrower will authorize and direct the Trustee, upon compliance with Section 3.04 of the Indenture, to disburse the moneys in the Costs of Issuance Fund to or on behalf of the Borrower only for Costs of Issuance. Each of the payments referred to in this Section 3.2(b) shall be made upon receipt by the Trustee of a written requisition in the form prescribed by Section 3.04 of the Indenture, signed by an Authorized Representative of the Borrower.

(c) The Borrower acknowledges that it shall not submit any requisitions to the Trustee for the payment of Costs of the Project from the Project Fund or any account therein, or for the payment of Costs of Issuance from the Costs of Issuance Fund or any account therein, unless it attaches to such requisition invoices evidencing each item requested for payment therein. In any instance where the requisition is for payment to the Borrower for reimbursement of costs previously paid, the Borrower shall attach the original invoices and other documentation to describe the original expenditures which were paid. If the Project consists of elements, which are only partially financed by the Bonds, the invoice/description must specifically identify the costs eligible for the tax-exempt financings to be paid from the Bonds.

(d) Prior to the Completion Date, the Borrower may deliver a Request to the Authority to consent to the removal of a component of the Project that is no longer necessary for inclusion within the Project and the reasons therefore. If the Authority does not act within 30 days after such Request is received, such consent shall be deemed to be given, after which the Borrower shall instruct the Trustee to apply a proportionate amount of moneys in the Project Fund as provided in Section 3.03 of the Indenture.

SECTION 3.3. Establishment Of Completion Date; Obligation Of Borrower To Complete. Upon the final disbursement from the Project Fund, an Authorized Representative of the Borrower, on behalf of the Borrower, shall evidence the Completion Date by providing a Final Project Completion Certificate, substantially in the form attached hereto as Exhibit C, to the Trustee and the Authority.

At the time such certificate is delivered to the Trustee, moneys remaining in the Project Fund (other than moneys relating to provisional payments permitted by Section 3.2), including any earnings resulting from the investment of such moneys, shall be used as provided in Section 3.03 of the Indenture.

In the event the moneys in the Project Fund available for payment of the Costs of the Project should be insufficient to pay the costs thereof in full, the Borrower agrees to pay directly, or to deposit in the Project Fund moneys sufficient to pay, any costs of completing the Project in excess of the moneys available for such purpose in such Project Fund. The Authority makes no express or implied warranty that the moneys deposited in the Project Fund and available for payment of the Costs of the Project, under the provisions of this Loan Agreement, will be sufficient to pay all the amounts which may be incurred for such Costs of the Project. The Borrower agrees that if, after exhaustion of the moneys in the Project Fund, the Borrower should pay, or deposit moneys in the Project Fund for the payment of, any portion of the Costs of the Project pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the Authority, the Trustee or the Holders of any of the Bonds, nor shall it be entitled to any diminution of the amounts payable under Section 4.2 hereof.

SECTION 3.4. Investment Of Moneys In Fund. Any moneys in any fund or account held by the Trustee shall, at the written request of an Authorized Representative of the Borrower, be invested or reinvested by the Trustee as provided in the Indenture. Such investments shall be held by the Trustee and shall be deemed at all times a part of the fund or account from which such investments were made, and the interest accruing thereon, and any profit or loss realized therefrom, shall be credited or charged to such fund or account.

ARTICLE IV LOANS OF PROCEEDS; REPAYMENT PROVISIONS

SECTION 4.1. Loan Of Bond Proceeds; Issuance Of Bonds. The Authority covenants and agrees, upon the terms and conditions in this Loan Agreement, to make a loan to the Borrower of the proceeds of the Bonds (conditioned on the receipt thereof by the Authority) for the purpose of financing the Costs of the Project and the Costs of Issuance. The Authority further covenants and agrees that it shall take all actions within its authority to keep this Loan Agreement in effect in accordance with its terms. Pursuant to said covenants and agreements, the Authority will issue the Bonds upon the terms and conditions contained in this Loan Agreement and the Indenture and will cause the Bond proceeds to be applied as provided in Article III of the Indenture.

SECTION 4.2. Repayment And Payment Of Other Amounts Payable.

(a) On or before each Bond Payment Date (as hereinafter defined), until the principal of, premium, if any, and interest on, the Bonds shall have been fully paid or provision for such payment shall have been made as provided in the Indenture, the Borrower covenants and agrees to pay to the Trustee as a repayment on the loan made to the Borrower from Bond proceeds pursuant to Section 4.1 hereof, a sum equal to the amount payable on the next Bond Payment Date as principal of and premium, if any, and interest on, the Bonds as provided in the Indenture ("Loan Repayments"). Such Loan Repayments shall be made in federal funds or other funds immediately available at the Corporate Trust Office of the Trustee. The term "Bond Payment Date" as used in this Section shall mean any date upon which any amounts payable with respect to the Bonds shall become due, whether upon redemption (including without limitation sinking fund redemption), acceleration, maturity or otherwise.

Each Loan Repayment shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, becoming due and payable on the Bonds on each Bond Payment Date; provided that once per year, on the third Business Day following the Bond Payment Date of each June, any amount held by the Trustee in the Revenue Fund on the due date for a Loan Repayment hereunder shall be credited against the installment due on the next Bond Payment Date to the extent available for such purpose under the terms of the Indenture; and provided further that if at any time the amounts held by the Trustee in the Revenue Fund are sufficient to pay all of the principal of and interest and premium, if any, on, the Bonds as such payments become due, the Borrower shall be relieved of any obligation to make any further payments under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Revenue Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption (including without limitation sinking fund redemption) or acceleration) and interest and premium, if any, on, the Bonds as such payments become due, the Borrower shall forthwith pay such deficiency as a Loan Repayment hereunder.

(b) The Borrower also agrees to pay (i) the acceptance fee and the annual fee of the Trustee for its ordinary services rendered as trustee and their ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses (including reasonable legal fees and expenses) of the Trustee, as bond registrar and paying agent, the reasonable fees of any other paying agent on the Bonds as provided in the Indenture, as and when the same become due, (iii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including, but not limited to reasonable attorneys' fees and expenses) incurred by it under the Indenture, as and when the same become due, (iv) the cost of printing any Bonds required to be furnished by the Authority at the expense of the Authority, (v) the cost of printing and typesetting any preliminary official statement, official statement or other offering circular utilized in connection with the sale or remarketing of any Bonds and any amendment or supplement thereto, (vi) the Authority's Administrative Fee (as described in the Tax Certificate), either at the date of delivery or from time to time thereafter, and (vii) any amounts required to be deposited in the Rebate Fund to comply with the provisions of Section 5.10 hereof and Section 6.06 of the Indenture and the payment of any rebate analyst. The Trustee's compensation shall not be limited by any provision of law regarding the compensation of a Trustee of an express trust.

(c) The Borrower also agrees to pay, (i) as soon as practicable after receipt of request for payment thereof, all expenses required to be paid by the Borrower under the terms of the Bond Purchase Contract relating to the sale of the Bonds, executed by the Treasurer of the State, the Authority, Goldman, Sachs & Co., as underwriter of the Bonds, and the Borrower (the "Bond Purchase Contract"); and (ii) all reasonable expenses of the Authority related to the Project which are not otherwise required to be paid by the Borrower under the terms of this Loan Agreement; including, but not limited to, all Costs of Issuance, provided that the Authority shall have obtained the prior written approval of an Authorized Representative of the Borrower for any expenditures other than those provided for herein or in the Bond Purchase Contract.

(d) The Borrower also agrees to pay fees and expenses of independent certified public accountants necessary for the preparation of annual or other audits, reports or summaries thereof required by the Indenture or by the Authority, including a report of an independent certified public accountant with respect to any fund established under the Indenture; and reasonable expenses of the Authority pursuant to Sections 44525 and 44548 of the California Health and Safety Code, and any agency of the State of California or any other counsel selected by the Authority to act on its behalf in connection with the Bonds.

(e) In the event the Borrower should fail to make any of the payments required by Subsections (a) through (d) of this Section, such payments shall continue as obligations of the Borrower until such amounts shall have been fully paid. The Borrower agrees to pay such amounts, together with interest thereon, following a delinquency of 30 days until such amount and all interest thereon have been paid in full. Interest thereon shall be at the Default Rate. Interest on overdue payments required under subsection (a) above shall be applied as provided in Sections 2.03, 5.02 and 5.03 of the Indenture.

SECTION 4.3. Unconditional Obligation. The obligations of the Borrower to make the payments required by Section 4.2 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Authority, and during the term of this Loan Agreement, the Borrower shall pay all payments required to be made on account of the loan (which payments shall be net of any other obligations of the Borrower) as prescribed in Section 4.2 and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of, premium, if any, sinking fund installments, if any, and interest on, the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Borrower (i) will not suspend or discontinue any payments provided for in Section 4.2 hereof; (ii) will perform and observe all of its other covenants contained in this Loan Agreement; and (iii) except as provided in Article VII hereof, will not terminate this Loan Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of those facilities or equipment comprising the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either of these, or any failure of the Authority or the

Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement or the Indenture, except to the extent permitted by this Loan Agreement.

SECTION 4.4. Assignment Of Authority's Rights. As security for the payment of the Bonds, the Authority will assign to the Trustee the Authority's rights under this Loan Agreement, including the right to receive payments hereunder (except the Retained Rights), and the Authority hereby directs the Borrower to make the payments required hereunder (except such payments for expenses and indemnification) directly to the Trustee. The Borrower hereby assents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the Borrower and the Authority or the Trustee.

SECTION 4.5. Amounts Remaining In Funds. It is agreed by the parties hereto that after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture, (ii) the fees, charges and expenses of the Trustee and paying agents in accordance with the Indenture, and (iii) all other amounts required to be paid under this Loan Agreement and the Indenture, any amounts remaining in any fund held by the Trustee under the Indenture (excepting the Rebate Fund) shall be paid as provided in Section 10.01 of the Indenture.

ARTICLE V SPECIAL COVENANTS AND AGREEMENTS

SECTION 5.1. Right Of Access To The Project. The Borrower agrees that during the term of this Loan Agreement, the Authority, the Trustee and the duly authorized agents of any of them shall have the right at all reasonable times during normal business hours to enter upon the site of the Project to examine and inspect the Project; provided, however, that reasonable notice shall be given to the Borrower prior to such examination or inspection. The rights of access hereby reserved to the Authority and the Trustee may be exercised only after such agent shall have executed release of liability and secrecy agreements if requested by the Borrower in the form then currently used by the Borrower, and nothing contained in this Section or in any other provision of this Loan Agreement shall be construed to entitle the Authority or the Trustee to any information or inspection involving the confidential trade or proprietary knowledge, expertise or know-how of the Borrower.

SECTION 5.2. The Borrower's Maintenance Of Its Existence; Assignments; Permitted Transfers Of The Project.

(a) To the extent permitted by law, the Borrower covenants and agrees that during the term of this Loan Agreement it shall:

(i) maintain its existence as a corporation,

(ii) continue to maintain its status in good standing as either a California corporation or a foreign corporation qualified to do business in the State of California,

(iii) not dissolve, sell or otherwise dispose of all or substantially all of its assets, combine or consolidate with or merge into another entity, or permit one or more other entities to consolidate with or merge into it so that the Borrower is not the resulting or surviving entity, except if:

(A)(1) such resulting or surviving entity or transferee, as the case may be, is a Participating Affiliate or (2) five years shall have elapsed since the issuance of the Bonds;

(B) such resulting or surviving entity or transferee, as the case may be, has executed and delivered to the Authority and the Trustee an Assignment and Assumption Agreement which provides: (I) certifications and evidence that such resulting or surviving entity or transferee qualifies to do business in the State of California and is in good legal standing, (II) an agreement by the surviving or resulting entity to pay and perform all of the obligations of the Borrower hereunder and under the Tax Certificate, and (III) representations by the surviving or resulting entity identical to the representations set forth in Section 2.3 hereof;

(C) either (x) after giving effect to such transaction, such resulting or surviving entity or transferee, as the case may be, would be permitted to incur at least \$1.00 of additional Funded Debt such that after giving effect to the issuance thereof and to the application of the proceeds thereof: (I) Consolidated Funded Debt shall not exceed 66 ²/₃% of Total Capitalization; and (II) Consolidated Net Income Available for Interest Charges for any period of 12 consecutive calendar months within the 15 consecutive calendar months immediately preceding the issuance of such Funded Debt shall be equal to or exceed 175% of Pro Forma Interest Charges; or (y) the credit rating on the Bonds, as determined by any Rating Agency then rating the Bonds, shall be no lower than the rating level of the Bonds immediately prior to the effective date of such dissolution, sale, disposition, combination, merger or consolidation; and

(D) the Authority shall have received an Approving Opinion with respect to such dissolution, sale, disposition, combination, merger or consolidation and an Opinion of Counsel to the effect that the surviving, resulting, or transferee Person is a "participating party" as defined in the Act.

(iv) not sell, transfer, lease or otherwise dispose of, or permit the sale, transfer, lease or disposal of, the Project or portion of the Project other than equipment that has reached the end of its useful life, except in accordance with any of the following subsections:

(A) The Borrower may sell, transfer, lease or otherwise dispose of any portion of the Project to a Participating Affiliate if the purchaser, transferee, lessee, operator or other recipient, as the case may be, has covenanted in a written instrument for the benefit of the Authority and the Borrower to comply with the instructions of the Borrower issued for the purpose of assuring that the Project be operated in conformance with this Loan Agreement, the Act, the Tax Certificate and federal tax law; provided that nothing in the foregoing shall diminish the Borrower's

obligation to cause the Project to be operated in conformance with this Loan Agreement, the Act, the Tax Certificate and federal tax law, including without limitation, the operation of the sold, transferred, disposed or leased portion of the Project. Any lease pursuant to the foregoing shall not permit sublease or assignment by the lessee unless such sublease or assignment would otherwise satisfy the requirements of this subsection.

(B) The Borrower may sell, transfer or otherwise dispose of any portion of the Project that constitutes equipment if (1) such sale, transfer or disposition is to or with a Participating Affiliate or (2) such equipment is replaced by the Borrower with equipment of equal or greater value and utility that is used in the same manner and for the same purposes as the equipment so sold, transferred or otherwise disposed of, has a useful life at least equal to the remaining useful life of the equipment so sold, transferred or otherwise disposed of and is in the same location as the equipment so sold, transferred or disposed of, to the extent identified in Exhibit A hereto and the Authority shall have received an Approving Opinion with respect to such replacement.

(C) The Borrower may sell, transfer, lease or otherwise dispose of any portion of the Project to a Person other than a Participating Affiliate, if,

(1) the purchaser, transferee, lessee, operator or other recipient, as the case may be, has covenanted in a written instrument for the benefit of the Authority and the Borrower to comply with the instructions of the Borrower issued for the purpose of assuring that the Project be completed and operated in conformance with this Loan Agreement, the Act, the Tax Certificate and federal tax law; provided that nothing in the foregoing shall diminish the Borrower's obligation to cause the Project to be completed and operated in conformance with this Loan Agreement, the Act, the Tax Certificate and federal tax law;

(2) the credit rating on the Bonds, as determined by any Rating Agency then rating the Bonds, shall be no lower than the rating level of the Bonds immediately prior to the effective date of such sale, transfer, lease or disposition; and

(3) the Authority shall have received (i) a certificate of good standing of the purchaser, transferee, lessee or operator, as the case may be, from the California Secretary of State and Franchise Tax Board, (ii) a copy of the document evidencing such sale, transfer, lease or disposition, (iii) an Approving Opinion with respect to such sale, transfer, lease or disposition, and (iv) an Opinion of Counsel to the effect that the surviving, resulting, or transferee Person is a "participating party" as defined in the Act.

(b) Within 10 days after the consummation of the merger or other transaction described in Section 5.2(a)(iii) or (a)(iv), the Borrower shall provide the Authority and the Trustee with (i) counterpart copies of the documents constituting the transaction, (ii) if required to be delivered hereunder, the items set forth in Section 5.2(a)(iii) or (a)(iv), as the case may be, and (iii) a certificate of the Borrower stating that the such transaction complies with the provisions of Section 5.2(a)(iii) or (a)(iv), as the case may be. The Borrower shall give the Authority at least 30 days' written notice prior to the effective date of any merger or other

transaction described above, together with drafts of the documents of assumption and such other instruments (other than good standing certificates) as would be required to be delivered in connection therewith. The Borrower agrees to provide such other information as the Authority may reasonably request in order to assure compliance with this Section 5.2(a).

(c) Notwithstanding any other provisions of Section 5.2(a), the Borrower need not comply with any of the provisions of Section 5.2(a) if, at the time of such merger, combination, sale or transfer of assets, dissolution or reorganization, the Bonds will be defeased as provided in Article X of the Indenture or in the case of a sale of less than all of the assets acquired or constructed with proceeds of the Bonds, the Bonds will be defeased or retired in an amount proportional to the percentage of the original cost of such assets to the original net proceeds of the Bonds. The Borrower shall provide to the Authority a certificate of the Borrower setting forth the calculations evidencing that the amount of Bonds defeased or retired is proportional to the percentage of the original cost of such assets to the original net proceeds of the Bonds.

(d) The rights and obligations of the Borrower under this Loan Agreement may be assigned by the Borrower to any Person in whole or in part, subject, however, to each of the following conditions:

(i) No assignment other than pursuant to paragraph (a) of this Section shall relieve the Borrower from primary liability for any of its obligations hereunder, and in the event of any assignment not pursuant to paragraph (a) of this Section the Borrower shall continue to remain primarily liable for the payments specified in Section 4.2 hereof and for performance and observance of the other agreements herein provided to be performed and observed by it.

(ii) Any assignment from the Borrower under this subsection (d) shall retain for the Borrower such rights and interests as will permit it to perform its obligations under this Loan Agreement, if applicable, and any assignee from the Borrower shall assume in writing the obligations of the Borrower hereunder to the extent of the interest assigned.

(iii) The Borrower shall give the Authority 30 days' prior written notice of any assignment under this subsection (d), and shall, within 30 days after delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of each such assignment together with an instrument of assumption and an Opinion of Counsel satisfactory to the Authority that the provisions of this Section 5.2(d) have been complied with.

Notwithstanding the foregoing, the Borrower may assign (without the consent of the Authority) its entire interest in this Loan Agreement without recourse and have no further liability for any obligations under this Loan Agreement if the consent of the Bondholders has been obtained directly or constructively pursuant to the terms of this Loan Agreement or the Indenture, and the conditions of the foregoing subsection (d)(iii) are satisfied.

(e) The Borrower may undertake any transaction not meeting the requirements of Section 5.2(a) or 5.2(d) if consented to in writing by the Authority. The Borrower must request any such written consents prior to undertaking any such transaction and provide to the Authority such information, reports and documents relating to the transaction as

the Authority may reasonably request. The Authority may respond to such request of the Borrower at any time within 45 days of such request. If the Authority has not responded to such request within the 45-day period, the Authority will be deemed to have consented to such transaction.

(f) If a merger, consolidation, sale or other transfer is effected as provided in this Section, all provisions of this Section shall continue in full force and effect and no further merger, consolidation, sale or transfer shall be effected except in accordance with the provisions of this Section.

SECTION 5.3. Records And Financial Statements Of Borrower.

(a) The Borrower covenants and agrees at all times to keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions of or in relation to the business, properties and operations of the Borrower. Such books of record and account shall be available for inspection by the Authority, the Trustee and the duly authorized agents of any of them at reasonable hours, under reasonable circumstances and after reasonable prior notice to the Borrower.

(b) The Borrower further covenants and agrees, within 120 days after the end of each Fiscal Year, to furnish to the Authority and the Trustee a Certificate of the Borrower stating that its financial statements have been completed and that no event which constitutes a Loan Default Event or which with the giving of notice or the passage of time or both would constitute a Loan Default Event has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Borrower to cure such default.

SECTION 5.4. Insurance. The Borrower agrees to insure the Project or cause the Project to be insured during the term of this Loan Agreement for such amounts and for such occurrences and subject to such deductibles and self-retentions, as are customary for similar facilities within the State of California, by means of policies issued by reputable insurance companies qualified to do business in the State of California or through self-insurance. The Borrower agrees to deliver, upon request, to the Authority and the Trustee memorandum copies of the insurance policies or certificates of insurance covering the Project, and the certification by an insurance consultant that the insurance on the Project meets the above requirements.

SECTION 5.5. Maintenance And Repair; Taxes; Utility And Other Charges. The Borrower agrees to maintain the Project, or cause the Project to be maintained, during the term of this Loan Agreement (i) in as reasonably safe condition as its operations shall permit, (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof and (iii) in a manner consistent with State law, including, without limitation, the Act and all environmental laws.

The Borrower agrees to pay or cause to be paid during the term of this Loan Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Project or any part thereof, including any taxes levied against any portion of the Project which, if

not paid, will become a charge on the receipts from the Project prior to or on a parity with the charge thereon and the pledge or assignment thereof to be created therefrom or under this Loan Agreement, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of any portion of the Project and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Project, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as are required to be paid during the term of this Loan Agreement. The Borrower may, at the Borrower's expense and in the Borrower's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Project or any part thereof will be subject to loss or forfeiture.

The Borrower agrees to maintain all certificates, approvals, permits and authorizations described in Section 2.3(h) necessary for the construction, as applicable, use or operation of the Project.

SECTION 5.6. Qualification In California. The Borrower agrees that throughout the term of this Loan Agreement it, or any successor or assignee as permitted by 5.2, will be qualified to do business in the State of California.

SECTION 5.7. General Tax Covenants. It is the intention of the parties hereto that interest on the Bonds shall be and remain Tax-exempt, and to that end the Borrower and the Authority covenant to comply with all of their respective requirements in the Tax Certificate, in this Section and in Section 5.8 which are for the benefit of the Trustee and each and every Holder of the Bonds. The Borrower's obligations in the Tax Certificate are incorporated herein as if fully set forth herein.

SECTION 5.8. Special Arbitrage Certifications; Rebate. The Borrower acknowledges that it has read Sections 5.05 and 6.06 of the Indenture and that it will comply with the requirements of those sections as if they were set forth in full in this Loan Agreement. The Borrower shall calculate, or cause to be calculated, its rebate liability at such times as are required by Section 148(f) of the Code and any temporary, proposed or final Regulations as may be applicable to the Bonds from time to time. The Borrower shall provide to the Trustee and the Authority a copy of each calculation of rebate liability prepared by or on behalf of the Borrower.

SECTION 5.9. Notice And Certificates To Trustee. (1) The Borrower hereby agrees to provide the Authority and the Trustee with the following:

(a) On or before June 15 and December 15 of each year during which any of the Bonds are Outstanding, commencing December 15, 2010, a Certificate of the Borrower that: (i) all payments required under this Loan Agreement have been made and (ii) any applicable third party credit support will continue in full force during the succeeding twelve months, or explaining why not;

(b) Within 120 days of the end of its fiscal year, a Certificate of the Borrower that it has complied with the requirements to make reports and provide financial statements pursuant to Section 5.3(b);

(c) Promptly upon knowledge of an Event of Default, notice of such Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default; and

(d) On or before December 15 of each year during which any of the Bonds are Outstanding, (i) a written disclosure of any significant change known to the Borrower which would adversely impact the Trustee's ability to perform its duties under the Indenture, or of any conflicts which may result because of other business dealings between the Trustee and the Borrower, and (ii) a representation of the Borrower that all certificates, approvals, permits and authorizations described in Section 2.3(h) that are necessary for the construction, as applicable, use or operation of the Project continue in full force and effect, provided that with respect to any such certificate, approval, permit or authorization that must issue without discretion on the part of the issuer thereof, the Borrower need only disclose the absence of such certificate, approval, permit or authorization and the Borrower's plan to acquire it.

(2) The Borrower agrees to provide the Authority and the Trustee the certificate set forth in Exhibit D hereto on each June 15 commencing June 15, 2011.

SECTION 5.10. Financing And Continuation Statements. The Borrower hereby agrees to file all financing and continuation statements required to be filed, if any, relating to the Bonds and their security and provide copies of such filings to the Trustee. In addition, the Borrower, on demand, will execute and deliver one or more financing statements, chattel mortgages or other instruments, to evidence more effectively the security interest of Trustee and the Bondholders in the property subject to the lien of the Indenture.

SECTION 5.11. Continuing Disclosure. The Borrower hereby covenants and agrees to comply with the continuing disclosure requirements promulgated under S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented. Notwithstanding any other provision of this Loan Agreement, failure of the Borrower to comply with the requirements of S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, shall not be considered a Loan Default Event; however, the Trustee at the written request of the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, but only to the extent indemnified to its satisfaction from and against any cost, liability or expense of any kind whatsoever related thereto, including, without limitation, fees and expenses of its attorneys and advisors and additional fees and expenses of the Trustee, or any Bondholder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations pursuant to this Section 5.11. The Borrower acknowledges and agrees that the Authority shall have no liability with respect to these obligations.

SECTION 5.12. Changes to the Project. The Borrower shall not make any changes to the Project or to the operation thereof which would affect the qualification of the Project under the Act or impair the exemption from federal income taxation of the interest on the Bonds.

ARTICLE VI
LOAN DEFAULT EVENTS AND REMEDIES

SECTION 6.1. Loan Default Events. Any one of the following which occurs and continues shall constitute a Loan Default Event:

(a) failure of the Borrower to make any payment required by Section 4.2(a) hereof when due; or

(b) failure of the Borrower to observe and perform any covenant, condition or agreement on its part required to be observed or performed by this Loan Agreement other than as provided in (a), which continues for a period of 30 days after written notice delivered to the Borrower, which notice shall specify such failure and request that it be remedied, given to the Borrower by the Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Authority and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; or

(c) existence of an Event of Default under and as defined in Section 7.01(a), (b) or (c) of the Indenture; or

(d) any representation or warranty of the Borrower set forth in Section 2.3 of this Loan Agreement at the time made or deemed made is false in any material respect.

The provisions of subsection (b) of this Section are subject to the limitation that the Borrower shall not be deemed in default if and so long as the Borrower is unable to carry out its agreements hereunder by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of California or any of their departments, agencies, or officials, or any civil or military authority; insurrections, riots, epidemics, landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; wars; acts of terrorism; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Borrower; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Borrower, and the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Borrower, unfavorable to the Borrower. This limitation shall not apply to any default under subsections (a), (c) or (d) of this Section.

SECTION 6.2. Remedies On Default. Subject to Section 6.1 hereof, whenever any Loan Default Event shall have occurred and shall be continuing,

(a) The Trustee, by written notice to the Authority and the Borrower, shall declare the unpaid balance of the loan payable under Section 4.2(a) of this Loan Agreement to be due and payable immediately, provided that concurrently with or prior to such notice the unpaid principal amount of the Bonds shall have been declared to be due and payable under the Indenture. Upon any such declaration such amount shall become and shall be immediately due and payable as determined in accordance with Section 7.01 of the Indenture.

(b) The Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Borrower; provided that the Trustee shall be obligated to protect the confidentiality of such information, except to the extent prohibited by State and federal law, and to prevent its disclosure to the public, except the Authority.

(c) The Authority or the Trustee may take whatever other action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under this Loan Agreement, provided, however, that acceleration of the unpaid balance of the loan payments is not a remedy available to the Authority.

In case the Trustee or the Authority shall have proceeded to enforce its rights under this Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Authority, then, and in every such case, the Borrower, the Trustee and the Authority shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Borrower, the Trustee and the Authority shall continue as though no such action had been taken.

The Borrower covenants that, in case a Loan Default Event shall occur with respect to the payment of any Loan Repayment payable under Section 4.2(a) hereof, then, upon demand of the Trustee, the Borrower will pay to the Trustee the whole amount that then shall have become due and payable under said Section, with interest on the amount then overdue at the Default Rate. The Default Rate shall be in effect following a delinquency of 30 days and shall remain in effect until such overdue amount has been paid.

In case the Borrower shall fail forthwith to pay such amounts upon such demand, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Borrower and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Borrower or in the case of any other similar judicial proceedings relative to the Borrower, or the creditors or property of the Borrower, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Loan Agreement and, in case of any judicial proceedings, to file such proofs of

claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Borrower, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its reasonable charges and expenses to the extent permitted by the Indenture. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for reasonable compensation and expenses, including reasonable expenses and fees of counsel incurred by it up to the date of such distribution.

SECTION 6.3. Agreement To Pay Attorneys' Fees And Expenses. In the event the Borrower should default under any of the provisions of this Loan Agreement and the Authority or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under this Loan Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower herein contained (other than litigation of disputes between the Authority and the Borrower), the Borrower agrees to pay and indemnify the Authority or the Trustee for the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Authority or the Trustee.

SECTION 6.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. The Trustee and the Holders of the Bonds shall be considered third party beneficiaries for the purposes of enforcing the rights of the Authority and their own respective rights.

SECTION 6.5. No Additional Waiver Implied By One Waiver. In the event any agreement or covenant contained in this Loan Agreement should be breached by the Borrower and thereafter waived by the Authority or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VII PREPAYMENT

SECTION 7.1. Redemption Of Bonds With Prepayment Moneys. By virtue of the assignment of the rights of the Authority under this Loan Agreement to the Trustee as is provided in Section 4.4 hereof, the Borrower agrees to and shall pay directly to the Trustee any amount permitted or required to be paid by it under this Article VIII. The Trustee shall use the moneys so paid to it by the Borrower to redeem the Bonds on the date set for such redemption pursuant to Section 7.5 hereof. The Authority shall call Bonds for redemption as required by Article IV of the Indenture or as requested by the Borrower pursuant to the Indenture or this Loan Agreement.

SECTION 7.2. Option To Prepay Installments. The Borrower shall have the option to prepay in whole or in part the Loan Repayments required by Section 4.2(a) hereof by paying to the Trustee, for deposit in the Revenue Fund, the amount set forth in Section 7.4 hereof and to cause all or any part of the Bonds to be redeemed at the time and at the price set forth in Section 4.01(4) of the Indenture.

SECTION 7.3. Mandatory Prepayment. The Borrower shall have and hereby accepts the obligation to prepay in whole the Loan Repayments required by Section 4.2(a) of this Loan Agreement, together with interest accrued, but unpaid, thereon, to be used to redeem all or a part of the Outstanding Bonds under any of the following circumstances:

(a) if and when as a result of any changes in the Constitution of the United States of America or the California Constitution or as a result of any legislative, judicial or administrative action, this Loan Agreement shall have become void or unenforceable or impossible of performance in accordance with the intention and purposes of the parties hereto, or shall have been declared unlawful;

(b) if, due to the untruth or inaccuracy of any representation or warranty made by the Borrower in this Loan Agreement or in connection with the offer and sale of the Bonds, or the breach of any covenant or warranty of the Borrower contained in this Loan Agreement or in the Tax Certificate, interest on the Bonds, or any of them, is determined not to be Tax-exempt to the Holders thereof (other than a Holder who is a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) by either (i) an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that interest on the Bonds, or any of them, is not, or, unless all or part of the Bonds are redeemed pursuant to Section 4.01(3) of the Indenture would not be, Tax-exempt, (ii) a final administrative determination of the Internal Revenue Service or (iii) a judicial decision of a court of competent jurisdiction in a proceeding of which the Borrower received notice and was afforded an opportunity to participate in to the full extent permitted by law. A determination or decision will be considered final for this purpose when all periods for administrative and judicial review have expired; or

(c) if mandatory redemption is required by Section 4.01(2) or 4.01(3) of the Indenture.

The amount payable by the Borrower in the event of a prepayment required by this Section shall be determined as set forth in Section 7.4 and shall be deposited in the Revenue Fund.

SECTION 7.4. Amount Of Prepayment. In the case of a prepayment of the entire amount due hereunder pursuant to Section 7.2 or 7.3 hereof, the amount to be paid shall be a sum sufficient, together with other funds and the yield on any securities deposited with the Trustee and available for such purpose, to pay (1) the principal of all Bonds Outstanding on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of the Bonds, plus premium, if any, pursuant to the Indenture, (2) all reasonable and necessary fees and expenses of the Authority, the Trustee and any paying agent accrued and to accrue through final payment of the Bonds and (3) all other liabilities of the Borrower accrued and to accrue under this Loan Agreement.

In the case of partial prepayment of the Loan Repayments pursuant to Section 7.2 or 7.3 hereof, the amount payable shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay expenses of redemption of such Bonds. All partial prepayments of the Loan Repayments shall be applied in inverse order of the due dates thereof.

SECTION 7.5. Notice Of Prepayment. To exercise an option granted in or to perform an obligation required by this Article VII, the Borrower shall give written notice, at least 15 days prior to the last day by which the Trustee is permitted to give notice of redemption pursuant to Section 4.03 of the Indenture, to the Authority and the Trustee specifying the amount to be prepaid and the date upon which any prepayment will be made. If the Borrower fails to give such notice of a prepayment in connection with a mandatory redemption under this Loan Agreement, such notice may be given by the Authority, by the Trustee or by any Holder or Holders of 10% or more in aggregate principal amount of the Bonds Outstanding. The Authority and the Trustee, at the request of the Borrower or any such Bondholders, shall forthwith take all steps necessary under the applicable provisions of the Indenture (except that the Authority shall not be required to make payment of any money required for such redemption) to effect redemption of all or part of the then Outstanding Bonds, as the case may be, on the earliest practicable date thereafter on which such redemption may be made under applicable provisions of the Indenture.

ARTICLE VIII NON-LIABILITY OF AUTHORITY; EXPENSES; INDEMNIFICATION

SECTION 8.1. Non-Liability Of Authority. The Authority shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, except from Revenues. The Borrower hereby acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower pursuant to this Loan Agreement, together with other Revenues, including investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the Authority or any third party.

SECTION 8.2. Expenses. The Borrower covenants and agrees to pay and to indemnify the Authority and the Trustee against all costs and charges, including reasonable fees and disbursements of attorneys, accountants, consultants and other experts, incurred in good faith in connection with this Loan Agreement, the Bonds or the Indenture.

SECTION 8.3. Indemnification. The Borrower releases the Authority and the Trustee from, and covenants and agrees that neither the Authority nor the Trustee shall be liable for, and covenants and agrees, to the extent permitted by law, to indemnify and hold harmless the Authority and the Trustee and their members, officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses (including, without limitation, reasonable attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments), of every conceivable kind, character and nature whatsoever (including, without limitation, federal and state securities laws) arising out of, resulting from or in any way connected with (1) the Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about the Project or the other facilities of the Borrower or its affiliates, or from the planning, design, acquisition, construction, rehabilitation, renovation, improvement, installation or equipping of the Project or any part thereof; (2) the issuance, sale or resale of any Bonds or any certifications or representations made in connection therewith, the execution and delivery of this Loan Agreement, the Indenture or the Tax Certificate or any amendment thereto and the carrying out of any of the transactions contemplated by the Bonds, the Indenture and this Loan Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture or this Loan Agreement; (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact required to be stated or necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized by the Authority or any underwriter or placement agent in connection with the sale of any Bonds or in any disclosure made by Borrower to comply with the requirements of S.E.C. Rule 15c2-12; (5) any violation of any Environmental Regulations or the release of any Hazardous Substance from, on or near the Project or any other facilities of the Borrower or its affiliates; (6) the defeasance and/or redemption, in whole or in part, of the Bonds; or (7) any declaration of taxability of interest on the Bonds, or allegations that interest on the Bonds is taxable or any regulatory audit or inquiry regarding whether interest in the Bonds is taxable; provided that with respect to indemnification of the Authority and its members, officers, employees and agents, such indemnity shall not be required for damages that result from the gross negligence or willful misconduct on the part of the party seeking such indemnity and with respect to any other indemnified party, such indemnity shall not be required for damages that result from the negligence or willful misconduct on the part of the party seeking such indemnity. The Borrower further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Authority and the Trustee and their members, officers, employees and agents for any and all costs, reasonable attorneys fees and expenses, liabilities or other expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the gross negligence or willful misconduct of the Authority and its members, officers, employees and agents claiming such payment or reimbursement or out of the negligence or willful misconduct of the Trustee and its members, officers, employees and agents claiming such payment or reimbursement. The provisions of this Section and Section 4.2(b) shall survive any resignation or removal of the Trustee, the retirement of the Bonds and the termination of this Loan Agreement.

**ARTICLE IX
MISCELLANEOUS**

SECTION 9.1. Notices. All notices, certificates or other communications shall be deemed sufficiently given on the second day following the day on which the same have been mailed by certified mail, postage prepaid, addressed to the Authority, the Borrower or the Trustee, as the case may be, as follows, and such communications shall also be deemed sufficiently given to the Trustee if sent by facsimile with confirmed receipt:

To the Authority:	California Pollution Control Financing Authority 915 Capitol Mall, Room 457 Sacramento, CA 95814 Attn: Executive Director Fax Number: (916) 657-4821
To the Borrower:	San Jose Water Company 110 West Taylor Street San Jose, CA 95110 Attn: Executive Vice President-Finance Fax Number: (408) 279-7934
To the Trustee:	Wells Fargo Bank, National Association 333 Market Street, 18th Floor MAC A0119-181 San Francisco, CA 94105 Attn: Corporate Trust Department Fax Number: (415) 371-3400

Any notice given to the Borrower as provided above shall be deemed to have been given to any affiliate of the Borrower affected by such notice.

A duplicate copy of each notice, certificate or other communication given hereunder by either the Authority or the Borrower to the other shall also be given to the Trustee. The Authority, the Borrower and the Trustee may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.2. Severability. If any provision of this Loan Agreement shall be held or deemed to be, or shall in fact be, illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

SECTION 9.3. Execution Of Counterparts. This Loan Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument; provided, however, that for purposes of perfecting a security interest in this Loan Agreement by the Trustee under Article 9 of the California Uniform Commercial Code, only the counterpart delivered, pledged, and assigned to the Trustee shall be deemed the original.

SECTION 9.4. Amendments, Changes And Modifications. Except as otherwise provided in this Loan Agreement or the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, this Loan Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee, given in accordance with Section 6.07(b) of the Indenture.

SECTION 9.5. Governing Law; Venue. This Loan Agreement shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. This Loan Agreement shall be enforceable in the State, and any action arising out of this Loan Agreement shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Authority waives this requirement.

SECTION 9.6. Authorized Representative. Whenever under the provisions of this Loan Agreement the approval of the Borrower is required or the Borrower is required to take some action at the request of the Authority, such approval or such request shall be given on behalf of the Borrower by an Authorized Representative, and the Authority and the Trustee shall be authorized to act on any such approval or request and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

SECTION 9.7. Term Of The Agreement. This Loan Agreement shall be in full force and effect from the date hereof and shall continue in effect as long as any of the Bonds is Outstanding or the Trustee holds any moneys under the Indenture, whichever is later. All representations and certifications by the Borrower as to all matters affecting the Tax-exempt status of the Bonds shall survive the termination of this Loan Agreement.

SECTION 9.8. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Authority, the Borrower and their respective successors and assigns; subject, however, to the limitations contained in Section 5.2 hereof.

SECTION 9.9. Survival Of Fee Obligation. The right of the Authority and the Trustee to receive any fees or be reimbursed for any expenses incurred pursuant to this Loan Agreement, and the right of the Authority and the Trustee to be protected from any liability as provided in this Loan Agreement, shall survive the retirement of the Bonds and the termination of this Loan Agreement.

SECTION 9.10. Liability of Authority Limited to Revenues. Notwithstanding anything in this Loan Agreement or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE

OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OR ANY LOCAL AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. The Authority shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with this Loan Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under this Loan Agreement; provided the Borrower shall not be required to pay the fees and expenses of the Authority's counsel incurred in connection with the issuance of the Bonds.

The Borrower hereby acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower to the Trustee pursuant to this Loan Agreement, together with investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal (or redemption price) and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or redemption price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor.

SECTION 9.11. Waiver of Personal Liability. No member, officer, agent or employee of the Authority or any director, officer, agent or employee of the Borrower shall be individually or personally liable for the payment of any principal (or redemption price) or interest on the Bonds or any sum hereunder or under the Indenture be subject to any personal liability or accountability by reason of the execution and delivery of this Loan Agreement; but nothing herein contained shall relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by this Loan Agreement.

SECTION 9.12. Opinion of Bond Counsel. The Borrower acknowledges and agrees to comply with Section 11.14 of the Indenture.

SECTION 9.13. Complete Agreement. The parties agree that the terms and conditions of this Loan Agreement supersede those of all previous agreements between the parties relative to the Bonds, and that this Loan Agreement, together with the documents referred to in this Loan Agreement, contains the entire agreement relative to the Bonds between the parties hereto.

[REST OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the California Pollution Control Financing Authority has caused this Loan Agreement to be executed in its name and its seal to be hereunto affixed by its duly authorized officers, and the Borrower has caused this Loan Agreement to be executed in its name all as of the date first above written.

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
By Bill Lockyer, Chairman

By: /s/ Bill Lockyer
Deputy Treasurer

[SEAL]

By: /s/ Michael Paparian
Executive Director

SAN JOSE WATER COMPANY

By: /s/ Angela Yip
Authorized Representative

EXHIBIT A

DESCRIPTION OF THE PROJECT

To the extent they will prevent the pollution of drinking water or improve the quality of water or ensure the safe handling, recycling or disposal of materials that might otherwise be improperly disposed of, the Project will be comprised of (i) improvements to the structures and facilities that are integral to the supply of water throughout the water supply system (the "Water System"), including the replacement of wells, storage tanks, reservoir, motor control center, pump motors, water treatment equipment and pump stations, (ii) improvements to the distribution system, including replacement of existing distribution mains, and (iii) the acquisition of equipment for the Water System, including hydrants, meters and related installation, facility retirements and customer information system; all located in one or more of the following areas: the Borrower's certificated service area in portions of the Cities of San Jose, Santa Clara, Cupertino, Campbell, Saratoga, Monte Sereno and Los Gatos and contiguous areas in the County of Santa Clara, California.

EXHIBIT B

LEASES RELATING TO THE PROJECT

None.

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EXHIBIT C

FINAL PROJECT COMPLETION CERTIFICATE

To: Wells Fargo Bank, National Association
333 Market Street, 18th Floor
MAC A0119-181
San Francisco, CA 94105
Attn: Corporate Trust Department

California Pollution Control Financing Authority
915 Capitol Mall, Room 457
Sacramento, CA 95814
Attn: Executive Director

RE: Final Project Completion Certification

This Final Project Completion Certificate is being provided to you pursuant to the requirements of the Loan Agreement between the Authority and the Borrower (as defined below) with respect to the Bonds (as defined below), whereon upon the final disbursement from the Project Fund relating to the below-referenced bonds, the Borrower shall have an Authorized Representative of the Borrower, on behalf of the Borrower, evidence the Completion Date of the project by providing a certificate to the Trustee and the Authority stating the Costs of the Project to the date of this Final Project Completion Certificate and the components of the Project as described in Exhibit A of the Loan Agreement (see attached). Such information is provided below.

BOND INFORMATION

Borrower Name (the "Borrower"): San Jose Water Company

Project Name(s): Please list.

Bond Name and Series: California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project) Series 2010A (the "Bonds")

Bond Closing Date: June 16, 2010

Bond Amount Issued: \$50,000,000

PROJECT INFORMATION

Project Address: *(From Exhibit A of the Loan Agreement)*

Project Commencement Date:

Project Completion Deadline: *(Contemplated per the Tax Agreement Section [_____])*

Completion Date: *(Actual)*

<u>Project Cost by Item</u> (From the Tax Certificate and Agreement)	BREAKDOWN OF	BREAKDOWN OF
	EXPENDITURES OF BOND PROCEEDS	EXPENDITURE OF NON- BOND PROCEEDS
	Amount	Amount
TOTAL:	\$ _____	\$ _____
<u>Amount of Bond Proceeds remaining in the Project Fund</u>		\$ _____

To the date hereof, the acquisition, construction, renovation, rehabilitation, improvement, installation and equipping been conducted substantially in accordance with the plans, specifications and work orders therefor, and all labor, services, materials and supplies used in the acquisition, construction, renovation, rehabilitation, improvement, installation and equipping have been paid or provided for. To the date hereof, all other facilities necessary in connection with the Project have been acquired, constructed, renovated, rehabilitated, improved, installed and equipped in accordance with the plans and specifications and work orders therefor and all costs and expenses incurred in connection therewith have been paid or provided for.

The Borrower certifies that all proceeds of the Bonds were spent on the Project and/or on costs of issuance of the Bonds. The Project as described in Exhibit A included certain initial specifications, but contemplated variances of certain terms within specified parameters. Any such variances to the date hereof are described below:

PROJECT VARIANCES (If Any):

This certificate is given without prejudice to any rights of the Borrower against third parties for any claims or for the payment of any amount not then due and payable which obligation has been incurred at the date of this certificate or which may subsequently be incurred.

I represent and warrant that I have full authority to execute this Final Project Completion Certificate on behalf of the Borrower. I certify that the foregoing certification is true and correct.

Borrower's Authorized Representative(s)

Attachments [Photos of completed project(s)]

EXHIBIT D

FORM OF ANNUAL BORROWER CERTIFICATE

Wells Fargo Bank, National Association
333 Market Street, 18th Floor
MAC A0119-181
San Francisco, CA 94105
Attn: Corporate Trust Department

California Pollution Control Financing Authority
915 Capitol Mall, Room 457
Sacramento, CA 95814
Attn: Executive Director

<u>Description of Bond Issue</u>	<u>Principal Amount Issued</u>
California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project) Series 2010A	\$ 50,000,000

Borrower – San Jose Water Company

The following lists of items are required per the Loan Agreement for the above-referenced financing. Please signify compliance and send this notice to the above-referenced participants.

1. Per section 5.8 of the Loan Agreement, Borrower is required to calculate rebate liability. Section 5.8 reads, in part, as follows:

“...The Borrower shall calculate, or cause to be calculated, its rebate liability at such times as are required by Section 148(f) of the Code and any temporary, proposed or final Regulations as may be applicable to the Bonds from time to time. The Borrower shall provide to the Trustee a copy of each calculation of rebate liability prepared by or on behalf of the Borrower, which documentation shall be made available to the Authority upon request.”

Borrower has complied has not complied is not yet required to comply is no longer required to comply with this requirement.

2. Per section 5.9(a) of the Loan Agreement, the Borrower is required to send a Certificate of the Borrower to the Authority and the Trustee. Section 5.9(a) reads, in part, as follows:

“...On or before June 15 and December 15 of each year any of the Bonds are Outstanding, commencing December 15, 2010, a Certificate of the Borrower that: (i) all payments required under this Loan Agreement have been made and (ii) any applicable third party credit support will continue in full force during the succeeding twelve months, or explaining why not;”

Borrower has has not complied with this requirement.

3. Per section 5.3(b) of the Loan Agreement, Borrower agrees to keep financial statements, provide notice to the Authority and the Trustee certification they are complete and that no event which constitutes a loan default has occurred. Section 5.3(b) reads, in part, as follows:

“...The Borrower further covenants and agrees, within 120 days after the end of each Fiscal Year, to furnish to the Authority and the Trustee a Certificate of the Borrower stating that its financial statements have been completed and that no event which constitutes a Loan Default Event or which with the giving of notice or the passage of time or both would constitute a Loan Default Event has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Borrower to cure such default.”

Borrower has has not complied with this requirement.

4. Per section 5.9(d) of the Loan Agreement, the Borrower is required to send a Certificate of the Borrower to the Authority and the Trustee. Section 5.9(d) reads, in part, as follows:

“...On or before December 15 of each year during which any of the Bonds are Outstanding, (i) a written disclosure of any significant change known to the Borrower which would adversely impact the Trustee’s ability to perform its duties under the Indenture, or of any conflicts which may result because of other business dealings between the Trustee and the Borrower, and (iii) a representation of the Borrower that all certificates, approvals, permits and authorizations described in the Section 2.3(h) that are necessary for the construction, as applicable, use or operation of the Project continue in full force and effect, provided that with respect to any such certificate, approval, permit or authorization that must issue without discretion on the part of the issuer thereof, the Borrower need only disclose the absence of such certificate, approval, permit or authorization and the Borrower’s plan to acquire it.”

Borrower has has not complied with this requirement.

If you answered “has not” to any of the above, please explain on a separate paper.

I represent and warrant that I have full authority to execute this certificate on behalf of the Borrower. I certify that the foregoing certificate for the above-referenced financing is true and correct.

By _____
Authorized Borrower Representative

Date _____

Title _____

Phone No. _____

\$50,000,000
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
REVENUE BONDS
(SAN JOSE WATER COMPANY PROJECT)
SERIES 2010A

BOND PURCHASE CONTRACT

June 9, 2010

The Honorable Bill Lockyer
Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, California 95814

California Pollution Control Financing Authority
915 Capitol Mall, Room 457
Sacramento, California 95814

Ladies and Gentlemen:

The undersigned, Goldman, Sachs & Co., as underwriter (the "Underwriter"), hereby offers to enter into this Bond Purchase Contract, including the appendices hereto (the "Purchase Contract") with you, the Honorable Bill Lockyer, Treasurer of the State of California (the "State Treasurer"), the California Pollution Control Financing Authority (the "Authority") and San Jose Water Company (the "Borrower"), for the purchase by the Underwriter and the issuance and sale by the Authority of the Bonds specified below. This offer is made subject to acceptance by the State Treasurer, the Authority and the Borrower prior to 11:59 p.m., California time, on the date hereof, and upon such acceptance this Purchase Contract shall be in full force and effect in accordance with its terms and shall be binding upon the State Treasurer, the Authority, the Underwriter and the Borrower. Any capitalized term used herein and not otherwise defined shall have the meaning given such term as set forth in the Indenture hereinafter defined.

1. **Purchase and Sale.** Upon the terms and conditions and upon the basis of the representations set forth herein, the Underwriter hereby agrees to purchase, and the Authority hereby agrees to deliver to the Underwriter, all (but not less than all) of the \$50,000,000 aggregate principal amount of California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project), Series 2010A (the "Bonds") to be dated as of the date of delivery thereof, to bear interest at the rate of 5.10% per annum, to mature on June 1, 2040, and otherwise as more fully described in the Indenture hereinafter defined. The purchase price for the Bonds shall be \$50,000,000, representing the aggregate principal amount of the Bonds. Simultaneously with the delivery of the Bonds, a fee in the aggregate amount of \$312,500 will be paid to the Underwriter by the Borrower in connection with the Underwriter's offering and sale of the Bonds to the public.

2. The Bonds. The Bonds will be issued under the provisions of the California Pollution Control Financing Authority Act, commencing with Section 44500 of the California Health and Safety Code, as now in effect and as it may from time to time hereafter be amended or supplemented (the "Act"). The Bonds shall be substantially in the form and subject to redemption as described in, and shall be issued and secured under and pursuant to the provisions of, an Indenture, dated as of June 1, 2010 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Bonds are secured by payments made by the Borrower to the Authority pursuant to a Loan Agreement, dated as of June 1, 2010 (the "Loan Agreement"), by and between the Authority and the Borrower. The proceeds of sale of the Bonds will be loaned to the Borrower to and applied to (a) finance the Project (as such term is defined in the Indenture), and (b) pay certain costs associated with the issuance of the Bonds.

3. Official Statement. The Authority and the Borrower hereby ratify, confirm and approve of the use and distribution by the Underwriter prior to the date hereof of the Preliminary Official Statement relating to the Bonds (including the cover page and all appendices thereto), dated May 27, 2010, together with any supplements thereto (the "Preliminary Official Statement"). The Authority and the Borrower shall deliver or cause to be delivered to the Underwriter a reasonable number of copies of the final Official Statement, dated the date hereof, relating to the Bonds, together with any amendments and supplements thereto (the "Official Statement"), executed on behalf of the Authority by its Executive Director, with the approval thereof by the Borrower. The Underwriter agrees to: (a) provide the Authority with final pricing information on the Bonds on a timely basis; (b) disseminate copies of the Official Statement including any supplements prepared by the Authority and the Borrower, and (c) take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to ultimate purchasers.

4. Representations, Warranties and Agreements of the Authority. The Authority, subject to the limitations provided herein, warrants, represents to and agrees with the Underwriter with respect to the Bonds that:

(a) The Authority is a public instrumentality and political subdivision of the State of California authorized under the Act to issue the Bonds and to exercise all rights and powers permitted under the Act;

(b) The Authority has complied with the provisions of the Act and all other applicable laws, rules and regulations necessary, and has the requisite power and authority, to (i) execute and deliver this Purchase Contract, the Indenture and the Loan Agreement (collectively, the "Legal Documents"), (ii) issue and deliver the Bonds as provided in this Purchase Contract, and (iii) consummate the transactions on its part contemplated by, and perform its obligations under the Legal Documents;

(c) By the adoption of its delegation resolution, dated May 26, 2010, and its final resolution, dated May 26, 2010 (collectively, the "Authorizing Resolution"), the Authority has duly authorized the distribution of the Preliminary Official Statement and the Official Statement, and approved the execution and delivery of, and the due performance by the Authority of the obligations on its part contained in the Legal Documents and the Bonds and the consummation by the Authority of the transactions contemplated thereby and hereby;

(d) When executed and delivered on the Closing Date (as hereinafter defined) in accordance with the provisions of this Purchase Contract and assuming the due authorization, execution, and delivery by the other respective parties thereto, the Legal Documents and the Bonds will constitute valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms, except as their enforceability may be limited by reasons of bankruptcy, insolvency, reorganization or other laws generally affecting creditors' remedies; the application of equitable principles regardless of whether equitable remedies are sought; by provisions of California law governing claims against public agencies; and by matters of public policy;

(e) To the best knowledge of the Authority, the execution and delivery by the Authority of the Legal Documents and the Bonds and compliance with the terms thereof will not conflict with, or constitute a violation, breach of, or default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Authority is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Authority or any of its activities or properties, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, breach, default, lien, charge or encumbrance would materially and adversely affect the transactions contemplated hereby or which, in any way, would materially and adversely affect the validity of the Bonds or any of the Legal Documents; provided, however, that no representation is made regarding compliance with any federal or state securities or "blue sky" laws;

(f) There is no action, suit, or proceeding at law or in equity before or by any court, or any inquiry or investigation before or by any governmental agency, public board, or body, with respect to which service of process on the Authority has been completed or, to the best knowledge of the Authority, without independent investigation, threatened against the Authority: (i) seeking to prohibit, restrain, or enjoin the execution and delivery of the Bonds by the Authority or the collection of revenues pledged or to be pledged to pay the principal of and interest on the Bonds; (ii) contesting or seeking to affect the validity or enforceability of the Bonds or the Legal Documents; or (iii) contesting the power of the Authority to enter into, adopt, or perform its obligations under any of the foregoing documents, wherein an unfavorable decision, ruling, or finding would materially and adversely affect the transactions contemplated hereby, or which would materially and adversely affect the validity of the Bonds or the Legal Documents;

(g) No consent, approval, authorization, or other action by any governmental or regulatory authority having jurisdiction over the Authority that has not been obtained is or will be required for the execution and delivery of the Bonds or the consummation by the Authority of the other transactions on its part contemplated by this Purchase Contract, except as such may be required for the state securities or "blue sky" laws, for final filings or notice to the California Debt Limit Allocation Committee or the California Debt and Investment Advisory Commission, and for filings to be made to the Internal Revenue Service on Form 8038;

(h) To the best knowledge of the Authority, without independent investigation, (i) the Authority is not in breach of or in default under (A) any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree, or (B) any loan agreement, indenture, bond, note, resolution, agreement, or other instrument to which the Authority is a party or is otherwise subject; and (ii) no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any such instrument, which breach or default would materially and adversely affect the transactions contemplated hereby and by the Official Statement or which, in any way would materially and adversely affect the validity of the Bonds or the Legal Documents; provided that no representation is made regarding compliance with any federal or state securities or "blue sky" laws;

(i) As of the date hereof, the statements and information contained in the Official Statement under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION," (solely as it relates to the Authority) do not contain any untrue statement of a material fact or omit to state a material fact which is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and

(j) The Authority agrees to cooperate with the Underwriter and its counsel in endeavoring to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the Authority will not be required to execute a consent to service of process or to qualify as a foreign corporation in connection with any such qualification in any jurisdiction in which it is not now so subject.

Any certificate signed by any officer of the Authority and delivered to the Underwriter shall be deemed a representation and warranty of the Authority to the Underwriter as to the statements made therein.

The execution and delivery of this Purchase Contract by the Authority shall constitute a representation by the Authority to the Underwriter that the representations and warranties contained in this Section 4 are true as of the date hereof; provided, however, that the Authority makes no representations or warranties as to the Borrower or any party to the agreements or instruments described herein other than the Authority and does not represent or warrant in any respect as to any of the statements, information (financial or otherwise), action taken or to be taken, representations or certifications furnished, or to be made and furnished, by the Borrower or any parties to the agreements or instruments described herein other than the Authority in connection with the execution and delivery of the Bonds or any such statements or information (financial or otherwise) contained in the Official Statement or the Legal Documents. Additionally, as to matters of law other than federal tax law the Authority is relying on the advice of counsel to the Authority; and as to matters of federal tax law the Authority is relying on the advice of Bond Counsel (as hereinafter defined).

No member of the governing body of the Authority, or any officer or employee of the Authority, shall be individually liable for the breach of any representation, warranty, or agreement contained herein.

5. Representations, Warranties and Agreements of Borrower. In order to induce the State Treasurer, the Authority and the Underwriter to enter into the Purchase Contract, the Borrower hereby represents, warrants, covenants and agrees with each of such parties, as follows:

(a) The Borrower is a corporation duly organized and in good standing under the laws of the State of California, and has full power and authority to enter into this Purchase Contract, the Loan Agreement and the Continuing Disclosure Agreement, dated as of June 1, 2010 (the "Continuing Disclosure Agreement"), by and between the Trustee and the Borrower, (collectively, the "Borrower Documents") and to approve the Indenture, the Preliminary Official Statement, and the Official Statement, and to carry out and consummate all transactions contemplated by the Borrower Documents, the Indenture and the Official Statement and by proper action has duly authorized the execution and delivery of the Borrower Documents and the approval of the Indenture, the Preliminary Official Statement and the Official Statement;

(b) Each officer of the Borrower executing the Borrower Documents and approving the Indenture and the Official Statement is duly and properly authorized to approve, execute, and deliver the same on behalf of the Borrower;

(c) All information provided by the Borrower and all representations made by the Borrower in its application to the Authority are true and correct as of the date hereof.

(d) The Indenture, the Preliminary Official Statement, and the Official Statement have been duly approved by the Borrower; this Purchase Contract has been duly authorized, executed, and delivered by the Borrower; the Loan Agreement and the Continuing Disclosure Agreement, have each been duly authorized and, at the Closing, will have been duly executed and delivered by the Borrower; and (i) the Loan Agreement, when assigned to the Trustee pursuant to the Indenture, will, to the extent of such assignment, constitute the valid and binding agreement of the Borrower with the Trustee enforceable against the Borrower in accordance with its terms for the benefit of the Owners of the Bonds, and (ii) the Borrower Documents, to the extent that any rights of the Authority and obligations of the Borrower thereunder are not so assigned to the Trustee, will constitute the valid and binding agreements of the Borrower enforceable against the Borrower in accordance with their respective terms; except as enforcement of each of the above-named documents may be limited by bankruptcy, insolvency, moratorium, and other laws affecting the enforcement of creditors' remedies and by the application of equitable principles, regardless of whether equitable remedies are sought, or matters of public policy;

(e) Except as disclosed in the Official Statement, the Borrower is not in breach of or default under (i) any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or (ii) any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Borrower is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any such instrument, which breach or default or event of default could materially adversely affect the ability of the Borrower to repay the loan of the proceeds of the Bonds and perform its obligations under the Borrower Documents;

(f) The execution and delivery of this Purchase Contract; the approval of the Indenture, the Preliminary Official Statement, and the Official Statement; the execution and delivery of the Loan Agreement and the Continuing Disclosure Agreement at the Closing; the consummation of the transactions contemplated by, and the fulfillment of or compliance with the terms and conditions of, the Borrower Documents will not conflict with or constitute a violation, breach of, or default (with due notice or the passage of time or both) under the Articles of Incorporation of the Borrower, its Bylaws, or any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, loan agreement, lease, contract or other agreement or instrument to which the Borrower is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Borrower, which conflict, violation, breach, default, lien, charge or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Borrower Documents or the financial condition, assets, properties or operations of the Borrower;

(g) No consent or approval of any trustee or holder of any indebtedness of the Borrower, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except in connection with “blue sky” laws) is necessary in connection with (i) the execution and delivery of this Purchase Contract; (ii) the execution and delivery of the Loan Agreement and the Continuing Disclosure Agreement at the Closing; (iii) the approval of the Indenture and the Official Statement; or (iv) the consummation of any transaction contemplated in the Borrower Documents, except as have been obtained or made and as are in full force and effect (or, in case of the Loan Agreement or the Continuing Disclosure Agreement, will be obtained or made and will be in full force and effect at the Closing);

(h) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry, or investigation before or by any court or federal, state, municipal or other government authority pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or the assets, properties or operations of the Borrower which, if determined adversely to the Borrower or its interests, could have a material and adverse effect upon the consummation of the transactions contemplated by the performance of or the validity of this Purchase Contract, the Loan Agreement, the Official Statement or the Continuing Disclosure Agreement, or the financial condition, assets, properties or operations of the Borrower;

(i) The proceeds of the Bonds will be used in connection with the financing of a “project” as defined in the Act, and as of the date hereof, the Borrower together with its affiliates is a “small business,” as defined in Section 8020 of Title 4 of the California Code of Regulations, and the Borrower together with its Participating Affiliates is a “participating party” under the Act.

(j) The Borrower has all necessary power and authority to conduct the business now being conducted by it and as contemplated by the Borrower Documents and the Official Statement to approve the Indenture, the Preliminary Official Statement, and the Official Statement;

(k) The Borrower has obtained, or will obtain as soon as reasonably practicable, the necessary governmental agency approvals, all variances from applicable zoning ordinances and all building permits and easements or licenses required for the completion and equipping of the Project, and such governmental agency approvals, variances, permits, easements, and licenses constitute all approvals required to complete the Project, except as provided in the Official Statement. The Project is not subject to change by any administrative or judicial body so as to materially affect such completion;

(l) The Borrower has not incurred any material liability, direct or contingent, nor has there been any material adverse change in the financial position, results of operations or condition, financial or otherwise, of the Borrower from that shown in the Official Statement which has not heretofore been described in writing to the Authority, the State Treasurer and the Underwriter, whether or not arising from transactions in the ordinary course of business;

(m) As of the date hereof, the Official Statement (including any financial and statistical data contained in the Official Statement) as amended or supplemented pursuant to this Purchase Contract, if applicable, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that no representation is made as to the statements and information concerning the book-entry only system and contained under the captions, "THE AUTHORITY," "ABSENCE OF MATERIAL LITIGATION (solely as it relates to the Authority)," "UNDERWRITING," and "TAX MATTERS";

(n) The balance sheets of the Borrower as of December 31, 2009 and 2008 and the related statements of income and cash flows for each of the three years in the period ended December 31, 2009, included in Appendix A to the Official Statement, present fairly the financial position of the Borrower as of December 31, 2009 and 2008, and the results of operations and cash flows for each of the three years in the period ended December 31, 2009, and are in conformity with generally accepted accounting principles applied on a consistent basis, as required by generally accepted accounting principles;

(o) The Borrower agrees to indemnify and hold harmless each of the State Treasurer, the Authority and the Underwriter, and each person, if any, who controls (as such term is defined in Section 15 of the Securities Act of 1933, as amended) any of them and the trustees, officers, members, agents and employees of the Authority, the State Treasurer and the Underwriter (collectively, the "Indemnitees") against any and all losses, claims, damages, liabilities and expenses arising out of any statement or information in the Preliminary Official Statement (other than the information contained under the captions "THE AUTHORITY," and "ABSENCE OF MATERIAL LITIGATION" (solely as it relates to the Authority) and, in the case of the Underwriter, other than the information contained under the caption "UNDERWRITING") or in the Official Statement (other than the information contained under the captions "THE AUTHORITY," and "ABSENCE OF MATERIAL LITIGATION" (solely as it relates to the Authority) and, in the case of the Underwriter, other than the information contained under the caption "UNDERWRITING") that is or is alleged to be untrue or incorrect in any material respect or the omission or alleged omission therefrom of any statement or information that should be stated therein or that is necessary to make the statements therein not

misleading in any material respect or from the failure or alleged failure to register any security under the Securities Act of 1933, as amended, or to qualify any indenture under the Trust Indenture Act of 1939, as amended, in connection with the public offering and sale of the Bonds. In case any claim shall be made or action brought against any Indemnitee based upon the Official Statement for which indemnity may be sought against the Borrower, as provided above, such Indemnitee shall promptly notify the Borrower in writing setting forth the particulars of such claim or action and the Borrower shall assume the defense thereof, including the retaining of counsel reasonably acceptable to such Indemnitee and the payment of all expenses. Any Indemnitee shall have the right at any time to retain separate counsel in any such action and to participate in the defense thereof but shall bear the fees and expenses of such counsel unless (i) the Borrower shall have specifically authorized the retaining of such counsel, (ii) the Borrower has failed to assume the defense and employ counsel reasonably acceptable to the Indemnitee, (iii) the Attorney General of the State of California assumes the defense of the Authority, or (iv) the parties to such suit include such Indemnitee, and the Borrower and such Indemnitee have been advised by such counsel that one or more legal defenses may be available to it which may not be available to the Borrower or that representation of such Indemnitee and the Borrower by the same counsel would be inappropriate under applicable standards of professional conduct due to actual or potential differing interests between them (in which case the Borrower shall not have the right to assume the defense of such action on behalf of such Indemnitee, but the Borrower shall not be liable for the fees and expenses of more than one counsel for such Indemnitee) or the State Treasurer or any Indemnitee of the Authority or the State Treasurer;

(p) In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in Section 5(o) hereof is applicable but for any reason is held to be unavailable from the Borrower, the Borrower and the Underwriter shall contribute to the aggregate losses, claims, damages and liabilities (including any investigation, legal, and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, to which the Borrower and the Underwriter may be subject, but after deducting any contribution received by the Borrower from persons who control the Borrower within the meaning of the Securities Act of 1933, as amended, or from the authorized representative of the Borrower who signed the Official Statement, who may also be liable for contribution) in such proportion that the Underwriter is responsible for that portion represented by the percentage that the underwriting fee set forth in the Official Statement bears to the public offering price appearing thereon and the Borrower is responsible for the balance; provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act of 1933, as amended) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 5(p), each person, if any, who controls the Underwriter within the meaning of the Securities Act of 1933, as amended, shall have the same rights to contribution as the Underwriter and each person, if any, who controls the Borrower within the meaning of the Securities Act of 1933, as amended, and the authorized representative of the Borrower who shall have signed the Official Statement shall have the same rights to contribution as the Borrower. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this Section 5(p), notify such party or parties from whom contribution may be sought, but the omission to so notify such party from whom contribution may be sought shall not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have hereunder or otherwise than under this Section 5(p). No party shall be liable for contribution with respect to any action or claim settled without its consent;

(q) The Borrower confirms that the Preliminary Official Statement is “final” (except as permitted under Rule 15c2-12 under the Securities Exchange Act of 1934 (the “Rule”)) and the Official Statement is “complete” as of its date within the meaning of the Rule. The use of the Official Statement by the Underwriter is authorized by the Borrower; and

(r) The representations, warranties, agreements and indemnities herein shall survive the Closing Date under the Purchase Contract and any investigation made by or on behalf of any Indemnitee of any matters described in or related to the transactions contemplated by this Purchase Contract, the Official Statement, the Loan Agreement, the Indenture and the Continuing Disclosure Agreement.

6. Closing. At 8:00 a.m., California time, on June 16, 2010, or at such other time or on such earlier or later date as the Authority, the Borrower and the Underwriter mutually agree upon (the “Closing Date”), the Authority will deliver or cause to be delivered to the Underwriter, who shall deliver or cause to be delivered to The Depository Trust Company in New York, New York (“DTC”) (or such other locations as may be designated by the Underwriter and approved by the Authority), the Bonds in book-entry form, duly executed and authenticated, and will deliver to the Underwriter at the Law Offices of Leslie M. Lava, 207 Second Street, Suite A, Sausalito, California 94965 (or such other location as may be designated by the Underwriter and approved by the Authority), the other documents herein mentioned. The Underwriter will pay the purchase price of the Bonds as set forth in Section 1 hereof by wire transfer to the order of the Trustee for the account of the Authority and will accept delivery of the Bonds as set forth below. This payment for and delivery of the Bonds, together with the delivery of the documents, is herein called the “Closing” or the “Closing Date.” CUSIP identification numbers shall be printed on the Bonds; however, neither the failure to print CUSIP numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Underwriter to accept delivery of and pay for the Bonds on the Closing in accordance with the terms of this Purchase Contract. The Bonds shall be made available to the Underwriter not less than one business day before the Closing for purposes of inspection.

The Bonds shall be registered in the name of Cede & Co., as nominee of DTC and shall be in the form of a single fully registered Bond for each maturity of the Bonds. The Authority acknowledges that the services of DTC will be used initially by the Underwriter in order to permit the issuance of the Bonds in book-entry form, and agrees to cooperate with the Underwriter in employing such services.

7. Underwriter’s Conditions to Closing. The Underwriter has entered into this Purchase Contract in reliance upon the representations and agreements of the Authority and the Borrower herein, the performance by the Authority and the Borrower of their respective obligations hereunder, both as of the date hereof and as of the Closing Date, the opinions of counsel to the Authority and the Borrower. The Underwriter’s obligations under this Purchase Contract are and shall be subject to the following further conditions:

(a) At the time of Closing, this Purchase Contract, the Indenture, the Loan Agreement and the Continuing Disclosure Agreement shall each be in full force and effect as valid and binding agreements between or among the various parties thereto and said documents and the Official Statement shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter and there shall be in full force and effect such resolutions as, in the opinion of Leslie M. Lava, Esq. (“Bond Counsel”), shall be necessary in connection with the transactions contemplated hereby;

(b) The Bonds shall have been duly authorized, executed and authenticated in accordance with the provisions of the Indenture;

(c) Between the date hereof and the Closing Date, the market price or marketability, at the initial offering price set forth in the Official Statement, of the Bonds shall not have been materially adversely affected, in the reasonable judgment of the Underwriter (evidenced by a written notice to the Authority and the Borrower, terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), after consultation with the Borrower, the Authority and the State Treasurer, by reason of any of the following:

(1) Legislation shall have been enacted by the Congress of the United States or the Legislature of the State of California or favorably reported thereto for passage by any committee to which such legislation has been referred for consideration or be pending before any such committee or shall have been recommended to the Congress of the United States for passage by the President of the United States or recommended to the Legislature of the State of California for passage by the Governor of the State of California, or a decision shall have been rendered by a court of the United States, including the Tax Court of the United States, or of the State of California, or a ruling or an official release shall have been made or a regulation shall have been proposed or made by the Treasury Department of the United States or the Internal Revenue Service or other federal or State of California authority having jurisdiction over tax matters, with respect to federal or State of California taxation upon revenues or other income of the Authority or the Borrower or upon interest on obligations of the general character of the Bonds, or other action or events shall have transpired that would, in the reasonable judgment of the Underwriter, have the purpose or effect, directly or indirectly, of changing the federal or State of California tax consequences of any of the transactions contemplated in connection herewith and that in the reasonable judgment of the Underwriter, affects materially and adversely (i) the market price or marketability of the Bonds or (ii) the ability of the Underwriter to enforce contracts for the sale of the Bonds;

(2) Legislation enacted or introduced in the Congress or recommended for passage by the President of the United States, or a decision rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, or the Bonds, including any or all underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification

under the Trust Indenture Act of 1939, as amended, or suspending the use of the Official Statement or any amendment or supplement thereto or any proceeding for that purpose shall have been initiated or threatened in any such court or by any such authority;

(3) The outbreak or escalation of hostilities involving the United States, or the declaration by the United States of a national emergency or war, or the occurrence of any other national emergency or calamity relating to the effective operation of the government of or the financial community in the United States beyond that in effect at the date hereof;

(4) The declaration of a general banking moratorium by federal, New York or California authorities, or the general suspension of trading on any national securities exchange or any material disruption in securities settlement services;

(5) The imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Bonds or obligations of the general character of the Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, underwriters;

(6) An order, decree or injunction of any court of competent jurisdiction, or order, ruling, regulation or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect;

(7) The withdrawal or downgrading of the rating of the Bonds to less than "A" by Standard and Poor's or notice by Standard and Poor's that it has such rating under review with negative implications; or

(8) Any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(d) At or prior to the Closing, the Underwriter shall receive the following documents with respect to the Bonds, in each case satisfactory in form and substance to the Underwriter and Underwriter's Counsel (as hereinafter defined):

(1) Certified copies of the Authorizing Resolution and any other resolutions adopted by the Authority which relate to the Bonds;

(2) The Indenture, the Loan Agreement and the Continuing Disclosure Agreement, each duly executed and delivered by the respective parties thereto, together with such amendments, modification or supplements as may have been agreed to in writing by the Underwriter;

(3) Copies of the Official Statement, executed by the Executive Director of the Authority or an authorized representative thereof, with the approval thereof executed on behalf of the Borrower by an authorized representative thereof;

(4) The unqualified approving opinion of Bond Counsel, dated the Closing Date and addressed to the Authority, in substantially the form attached as Appendix B to the Official Statement, together with a reliance letter addressed to the Underwriter;

(5) The supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Authority and the Underwriter, in substantially the form attached hereto as Exhibit A;

(6) The unqualified approving opinion of Special Tax Counsel, dated the Closing Date and addressed to the Authority, the Underwriter and Bond Counsel, in substantially the form attached as Appendix C to the Official Statement;

(7) The supplemental opinion of Special Tax Counsel, dated the Closing Date and addressed to the Authority and the Underwriter, in substantially the form attached hereto as Exhibit B;

(8) The opinion of the Attorney General of the State of California, counsel to the Authority ("Authority Counsel"), addressed to the Authority, dated the Closing Date, in substantially the form attached hereto as Exhibit C;

(9) Certificate of the Authority, dated the Closing Date, in substantially the form attached hereto as Exhibit D;

(10) Copies of the Articles of Incorporation of the Borrower and a good standing certificate of recent date, each certified by the Secretary of State; a good standing certificate of recent date for the Borrower certified by the Franchise Tax Board of the State and certified copies of the Borrower's bylaws and resolutions or unanimous written consents of the Board of Directors of the Borrower authorizing the execution and delivery of the Loan Agreement, the Continuing Disclosure Agreement and this Purchase Contract, approving the Indenture and the Official Statement (and distribution thereof) and authorizing the distribution of the Preliminary Official Statement;

(11) A certificate of an authorized representative of the Borrower acceptable to the Underwriter and the Authority, dated the Closing Date, to the effect that:

(A) No litigation is pending or, to the knowledge of such officer, threatened (i) to restrain or enjoin the issuance or delivery of any of the

Bonds or the payments to be made by the Borrower under the Indenture or the Loan Agreement, (ii) in any way contesting or affecting the authority for the issuance or delivery of the Bonds or the validity of the Bonds, the Indenture, the Loan Agreement, the Official Statement, the Continuing Disclosure Agreement or this Purchase Contract, or the resolutions of the Borrower relating to the financing of the Project and the Bonds, or (iii) in any way contesting the corporate existence or powers of the Borrower;

(B) No event has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein not misleading in any material respect; provided that no representation is made as to the statements and information concerning the book-entry only system and contained under the captions, "THE AUTHORITY," "ABSENCE OF MATERIAL LITIGATION" (solely as it relates to the Authority), "UNDERWRITING," and "TAX MATTERS";

(C) There has been no material adverse change in the business, properties or financial condition of the Borrower from that shown in the Official Statement; and

(D) The representations and warranties of the Borrower contained in this Purchase Contract are true and correct in all material respects as of the Closing Date as if made on and as of the Closing Date;

(12) The opinion of counsel to the Borrower ("Borrower's Counsel"), addressed to the Authority, the Trustee and the Underwriter, dated the Closing Date, in substantially the form attached hereto as Exhibit E;

(13) An opinion of counsel to the Trustee addressed to the Authority and the Underwriter, dated the Closing Date, to the effect that:

(A) The Trustee is a national banking association with trust powers and being qualified to accept and administer funds, duly created and lawfully existing under the laws of the United States of America and having the authority to exercise trust powers in the State of California;

(B) The Trustee has duly authorized by all necessary corporate action the execution, delivery, and performance of the Indenture;

(C) The Trustee has full power and corporate authority to accept the duties and obligations imposed on it by the Indenture and to authenticate the Bonds and the full legal power and authority to own its properties and to carry on its business;

(D) Upon execution and delivery of the Indenture, by a duly authorized officer of the Trustee, the Indenture will constitute the valid and binding agreement of the Trustee, enforceable against it in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, moratorium, and other laws affecting the enforcement of creditors' remedies generally and to the application of equitable principles, regardless of whether equitable remedies are sought; and

(E) No authorization, consent or other order of any State of California or federal government authority or agency having jurisdiction in the matter is required to be obtained by the Trustee for the valid authorization, execution, delivery and performance by the Trustee of the Indenture;

(14) A certificate of the Trustee, dated the Closing Date, to the effect that:

(A) The Trustee is the Trustee under the Indenture, relative to the issuance and delivery of the Bonds;

(B) The Trustee is duly organized, validly existing, in good standing under the laws of the United States of America, and has the authority to exercise trust powers in the State of California, and is empowered, authorized, and duly qualified to serve as trustee and registrar pursuant to the Indenture and the other documents relating to the issuance of the Bonds;

(C) The Indenture and the Continuing Disclosure Agreement have been duly executed, acknowledged, and delivered on behalf of the Trustee by an authorized officer;

(D) The Bonds have been duly authenticated and delivered by the Trustee, acting as registrar pursuant to the Indenture;

(E) The Trustee has received executed counterparts of the Indenture, the Loan Agreement, the Tax Certificate and the Continuing Disclosure Agreement; and

(F) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or to the best of the Trustee's knowledge, threatened against the Trustee affecting the existence of the Trustee or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the authentication of the Bonds by the Trustee, or contesting the powers of the Trustee or its authority to perform its obligations under the Indenture, the Continuing Disclosure Agreement or the Bonds.

(15) An agreed upon procedures letter from KPMG to the Underwriter in form and substance satisfactory to the Underwriter;

(16) An opinion of counsel to the Underwriter, addressed to the Underwriter, dated the Closing Date, in form and substance satisfactory to the Underwriter;

(17) The Tax Certificate and Agreement executed by the Authority and the Borrower in form and substance acceptable to Bond Counsel and the Underwriter;

(18) An executed copy of the DTC Blanket Letter of Representations;

(19) Evidence from Standard and Poor's that the Bonds have been rated "A";

(20) Evidence of required filings with the California Debt and Investment Advisory Commission and any other applicable governmental filings;

(21) The engineering report of BECON Corporation in form and substance satisfactory to the Underwriter, Bond Counsel and Special Tax Counsel; and

(22) Such additional legal opinions, certificates, proceedings, instruments and other documents as Bond Counsel and Counsel to the Authority may reasonably request to evidence compliance by the Authority and the Borrower with legal requirements, the truth and accuracy, as of the time of Closing, of the representations contained herein and in the Official Statement and the due performance or satisfaction by the Authority and the Borrower, at or prior to such time, of all agreements then to be performed and all conditions then to be satisfied.

(e) All matters relating to this Purchase Contract, the Bonds and the offering and sale thereof, the Indenture, the Loan Agreement and the consummation of the transactions contemplated by this Purchase Contract shall have been approved or waived by the Underwriter.

8. Authority's Conditions to Closing. The Authority's obligations hereunder with respect to the Bonds shall be subject to the following conditions:

(a) The performance by the Borrower of its obligations, to be performed hereunder at or prior to the Closing; and

(b) No order, decree, injunction, ruling or regulation of any court, regulatory agency, public board or body shall have been issued, nor shall any legislation have been enacted, with the purpose or effect, directly or indirectly, of prohibiting the offering, sale or issuance of the Bonds as contemplated hereby or by the Official Statement.

(c) At or before the Closing, the Authority shall have received:

(i) Executed counterparts of the Legal Documents;

(ii) Duly executed originals or conformed copies, as may be determined by the Authority, of the letters, documents, certificates and opinions referred to in Section 7(d) hereof and such other certificates, opinions and documents reasonably required by the Authority; and

(iii) Evidence of payment or provision for payment of the fees of the State Treasurer as agent for sale, and the California Debt Limit Allocation Committee.

In addition, not later than 10 days after the Closing, the Underwriter shall submit to the Authority the report(s) required by Section 1899.532 of Article 4 of Subchapter 4 of Chapter 4 of Division 2 of Title 2 of the California Code of Regulations, in substantially the form attached hereto as Exhibit F.

9. Supplements to Official Statement. Before the “End of Underwriting Period,” which will be deemed the Closing Date unless notified otherwise by the underwriter prior to closing and in no event longer than 25 days after the Closing Date, (a) the Authority will not adopt any amendment of or supplement to the Official Statement to which the Underwriter shall object in writing or which shall be disapproved by Underwriter’s counsel and (b) if any event relating to or affecting the Authority or the Borrower shall occur as a result of which it is necessary, in the opinion of Underwriter’s counsel, after consultation with the Authority, to amend, or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to the initial purchasers of the Bonds, the Authority and the Borrower will forthwith prepare and furnish to the Underwriter a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to Underwriter’s counsel, and at the expense of the Borrower) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to the initial purchasers of the Bonds, not misleading. For the purposes of this section, the Authority and the Borrower will each furnish such information with respect to themselves as the Underwriter may from time to time request.

10. Expenses. (a) The Underwriter shall be under no obligation to pay, and the Borrower, pursuant to this Purchase Contract, shall pay all expenses and costs incident to the performance by the Authority of its obligations in connection with the authorization, issuance and delivery of the Bonds to the Underwriter. The Borrower shall pay all costs of issuance associated with the Bonds including the costs of preparing the Preliminary Official Statement and the Official Statement (and any amendment or supplement prepared pursuant to this Purchase Contract); and the fees and expenses of Bond Counsel, Authority Counsel, Borrower’s Counsel and Underwriter’s Counsel, any or all of which may be paid out of Bond proceeds; provided however that the Borrower’s obligations hereunder will not be limited by the availability of Bond proceeds.

(b) The Borrower shall pay all expenses reasonably incurred by the Underwriter in connection with the offering and distribution of the Bonds, including but not limited to: (i) all advertising expenses in connection with the offering of the Bonds; (ii) all reasonable out-of-pocket disbursements and expenses incurred by the Underwriter in connection with the offering and distribution of the Bonds; (iii) the fees payable to the California Debt and Investment Advisory Committee; and (iv) the costs of ordering CUSIP numbers and qualifying the Bonds with DTC.

11. Notices. Any notice or other communication to be given under this Purchase Contract:

(a) To the State Treasurer may be given by delivering the same in writing to the Treasurer of the State of California, 915 Capitol Mall, Room 261, Sacramento, California 95814;

(b) To the Authority may be given by delivering the same in writing to the California Pollution Control Financing Authority, 915 Capitol Mall, Room 457, Sacramento, California 95814, Attention: Executive Director;

(c) To the Underwriter may be given by delivering the same in writing to Goldman, Sachs & Co., 200 West St., 33rd Floor, New York, New York 10282, Attention: R. Thornton Lurie, Managing Director; and

(d) To the Borrower may be given by delivering the same in writing to San Jose Water Company, 110 West Taylor Street, San Jose, California 95110, Attention: Executive Vice President - Finance.

All notices or communications hereunder by any party shall be given and served upon each other party. The approval of the Underwriter when required hereunder or the determination of satisfaction as to any document referred to herein shall be in writing signed by the Underwriter and delivered to the party requesting such approval or determination of satisfaction.

12. Parties In Interest; Survivability of Representations, Warranties and Agreements. This Purchase Contract shall be binding upon and inure solely to the benefit of each of the State Treasurer, the Authority, the Underwriter, and the Borrower and, to the extent set forth herein, persons controlling any of such parties, and their respective trustees, officers, members, employees, agents and personal representatives, successors and assigns, and no other person or firm shall acquire or have any right under or by virtue of this Purchase Contract. All representations, warranties and agreements of the Authority, the Underwriter, and the Borrower in this Purchase Contract shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of and payment for the Bonds.

13. Representations, Warranties and Agreements of Underwriter. The Underwriter represents and warrants to and agrees with the Authority and the State Treasurer that it is authorized to take any action under this Purchase Contract required to be taken by it and that this Purchase Contract is a binding contract of the Underwriter enforceable against the Underwriter in accordance with its terms. The Underwriter also represents that all information in the Official Statement under the heading "UNDERWRITING" was as of its date and is as of the date hereof true, accurate and correct.

14. Execution in Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

15. Governing Law. This Purchase Contract shall be governed exclusively by and construed in accordance with the applicable laws of the State applicable to contracts made and performed in the State. This Purchase Contract shall be enforceable in the State and any action arising out of this Purchase Contract shall be filed with and maintained in Sacramento County Superior Court, Sacramento County, California, unless the Authority waives this requirement in writing.

[Signature Page of Bond Purchase Contract Follows]

The parties agree that the terms and conditions of this Purchase Contract supersede those of all previous agreements between the parties with respect to the subject matter hereof, and that this Purchase Contract contains the entire agreement between the parties hereto with respect to such subject matter.

Very truly yours,

/s/ Goldman, Sachs & Co.

GOLDMAN, SACHS & CO.

Accepted:

TREASURER OF THE STATE OF CALIFORNIA

By: /s/ Julie Giordano
Deputy Treasurer
For California State Treasurer Bill Lockyer

**CALIFORNIA POLLUTION CONTROL FINANCING
AUTHORITY**

By: /s/ Michael Paparian
Executive Director

Agreed to and accepted by:

SAN JOSE WATER COMPANY

By: /s/ Angela Yip
Authorized Officer

Signature Page to Bond Purchase Contract

EXHIBIT A

FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL

[Closing Date]

California Pollution Control
Financing Authority
915 Capitol Mall, Room 457
Sacramento, California 95814

Goldman, Sachs & Co.,
as the underwriter
200 West Street, 31st Floor
New York, New York 10282

Re: \$50,000,000
California Pollution Control Financing Authority
Revenue Bonds
(San Jose Water Company Project)
Series 2010A
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you pursuant to Section 7(d)(5) of the Bond Purchase Contract, dated June 9, 2010 (the "Purchase Contract"), among Goldman, Sachs & Co. (the "Underwriter"), the Treasurer of the State of California (the "Treasurer") and the California Pollution Control Financing Authority (the "Authority"), and approved by San Jose Water Company (the "Borrower"), providing for the purchase of \$50,000,000 principal amount of California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project) Series 2010A (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of June 1, 2010 (collectively, the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee. Capitalized terms not otherwise defined herein shall have the respective meanings ascribed thereto in the Indenture or, if not defined in the Indenture, in the Purchase Contract.

I have delivered my final legal opinion as bond counsel concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the Authority. The Underwriter may rely on such opinion as though the same were addressed to the Underwriter.

In connection with my role as bond counsel, I have reviewed the Purchase Contract, the Indenture, the Loan Agreement, the Tax Certificate, opinions of counsel to the Authority, the Trustee and the Borrower, the opinion of special tax counsel to the Authority, certificates of the Authority, the Trustee, the Borrower and others, and such other documents, opinions and matters to the extent I deemed necessary to render the opinions set forth herein.

The opinions or conclusions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. I have not undertaken to determine, or to inform any person, whether any such actions or events are taken or omitted or do occur, or whether any other matters come to my attention, after the date hereof, and I have no obligation to update this opinion. I have assumed the genuineness of all documents and signatures presented to me (whether as originals or as copies) and the due and legal execution and delivery by, and validity against, any parties other than the Authority. I have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. I have further assumed compliance with all covenants and agreements contained in such documents. In addition, I call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement, the Tax Certificate and the Purchase Contract are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. I express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained therein. Finally, I have undertaken no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and, except as provided in paragraph 3 below, express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon and on the assumptions and limitations set forth in my final legal opinion, as of the date hereof, I am of the following opinions or conclusions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

2. The Purchase Contract has been duly authorized, executed and delivered by the Authority and (assuming due authorization, execution and delivery by and validity against the Underwriter) is a valid and binding agreement of the Authority.

3. The statements contained in the Official Statement, dated June 9, 2010 with respect to the Bonds (the "Official Statement"), under the captions "The Bonds" (except for the section entitled "DTC and the Book-Entry Only System"), "Security and Sources of Payment for the Bonds", "The Loan Agreement", "The Indenture" and "Tax Matters", insofar as such statements expressly summarize certain provisions of the Bonds, the Indenture and the Loan Agreement and my opinion concerning certain federal tax matters relating to the Bonds, are accurate in all material respects.

This letter is furnished by me as bond counsel. No attorney-client relationship has existed or exists between my firm and the Underwriter in connection with the Bonds or by virtue of this letter, and I have no obligation to update this letter. This letter is delivered to the Underwriter and the

Authority as underwriter and issuer, respectively, of the Bonds, is solely for your benefit as such underwriter and issuer, respectively, and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person, except that reference may be made to it in the Purchase Contract or in any list of closing documents pertaining to the offering of the Bonds covered by the Official Statement. This letter is not intended to, and may not, be relied upon by owners of Bonds.

Very truly yours,

A-3

FORM OF SUPPLEMENTAL OPINION OF SPECIAL TAX COUNSEL

[Closing Date]

California Pollution Control
Financing Authority
915 Capitol Mall, Room 457
Sacramento, California 95814

Re: \$50,000,000 California Pollution Control Financing Authority Revenue Bonds
(San Jose Water Company) Series 2010A

Ladies and Gentlemen:

We acted as Special Tax Counsel in connection with the issuance by the California Pollution Control Financing Authority (the "Authority") of \$50,000,000 aggregate principal amount of its Revenue Bonds (San Jose Water Company) Series 2010A (the "Bonds"). The Bonds are being issued on the date hereof pursuant to an Indenture dated as of June 1, 2010 between the Authority and Wells Fargo Bank, National Association, as Trustee. The Authority will loan the proceeds of the Bonds to San Jose Water Company (the "Borrower"), a California corporation, pursuant to a Loan Agreement, dated as of June 1, 2010 (the "Loan Agreement"), between the Authority and the Borrower, for the purpose of financing certain capital costs of the construction, acquisition, and installation of (i) improvements to the structures and facilities that are integral to the supply of water throughout the water supply system owned by the Borrower (the "Water System"), including the replacement of wells, storage tanks, reservoir, motor control center, pump motors, water treatment equipment and pump stations, (ii) improvements to the distribution system, including replacement of existing distribution main, and (iii) the acquisition of equipment for the Water System, including hydrants, meters and related installation, facility retirements and customer information system; and other capital projects functionally related and subordinate to such facilities; all located in one or more of the following areas: the Borrower's certificated service area in portions of the Cities of San Jose, Santa Clara, Cupertino, Campbell, Saratoga, Monte Sereno, and Los Gatos and in contiguous areas in the County of Santa Clara, California.

In our capacity as Special Tax Counsel we have delivered an opinion (the "Special Tax Counsel Opinion") dated the date hereof to the Authority and other named parties with respect to the exclusion of interest on the Bonds from gross income for Federal income tax purposes.

In our capacity as Special Tax Counsel we have examined such documents, records of the Authority and other instruments as we deemed necessary to enable us to express the opinions set forth below, including executed counterparts of the Indenture, the Loan Agreement, the Tax Certificate and Agreement and the other documents listed in the closing memorandum in respect of the Bonds.

Based on and subject to the foregoing, and in reliance thereon and on the assumptions and limitations set forth in our opinion, as of the date hereof, it is our opinion that the statements contained in the Official Statement, dated June 9, 2010 with respect to "Tax Matters," insofar as such statements expressly summarize certain provisions of the Bonds, the Indenture and the Loan Agreement and our Special Tax Counsel Opinion concerning certain federal tax matters relating to the Bonds, are accurate in all material respects.

Very truly yours,

B-2

EXHIBIT C

FORM OF OPINION OF COUNSEL TO THE AUTHORITY

[Closing Date]

California Pollution Control Financing Authority
Sacramento, California

RE: \$50,000,000 California Pollution Control Financing Authority Revenue Bonds
(San Jose Water Company Project) Series 2010A

Ladies and Gentlemen:

This opinion is delivered to you in connection with the issuance by the California Pollution Control Financing Authority (the "Authority") of its Revenue Bonds (San Jose Water Company Project) Series 2010A in the aggregate principal amount of \$50,000,000 (the "Bonds"). This opinion is delivered to you pursuant to Section 7(d)(8) of a Bond Purchase Contract, dated June 9, 2010 (the "Purchase Contract"), among the Treasurer of the State of California, the Authority, and Goldman, Sachs & Co. (the "Underwriter"), and approved by San Jose Water Company (the "Borrower").

The Bonds are being issued pursuant to the provisions of the California Pollution Control Financing Authority Act, Division 27 of the Health and Safety Code (commencing with section 44500) (the "Act"). The Bonds are being issued pursuant to an Indenture, dated as of June 1, 2010 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The proceeds of the Bonds are being loaned by the Authority to the Borrower pursuant to a Loan Agreement, dated as of June 1, 2010 (the "Loan Agreement"), between the Authority and the Borrower. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture.

The Authority's only sources of payment for the principal of, premium, if any, or interest on the Bonds are Revenues from payments by the Borrower and from certain other limited sources provided for and described in the Indenture. The Authority is not obligated to pay the principal of, premium, if any, or interest on the Bonds except from such Revenues and other limited sources provided for and described in the Indenture. Neither the faith and credit nor the taxing power of the State of California or any subdivision thereof, or any local agency, is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power with which to provide for payment of the principal of, premium, if any, or interest on the Bonds, nor does it have the power to commit the faith and credit or the taxing power of the State of California or any subdivision thereof, or any local agency, to payment of the principal of, premium, if any, or interest on the Bonds.

As to questions of fact material to this opinion, we have relied upon representations contained in the Indenture, the Loan Agreement and the Purchase Contract (“Authority Documents”) and in certain certificates, documents, records, statements, and opinions furnished by, or on behalf of, the Authority and the Borrower, without undertaking to verify such facts by independent investigation. We have reviewed the Authority Documents, certificates of the Authority and others, certain parts of the Official Statement, as defined below, under the headings, “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION” (solely as it relates to the Authority), and such other documents, opinions and matters to the extent deemed necessary to render the opinions set forth herein. In addition, we have assumed compliance with the covenants and agreements contained in the Authority Documents.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the preceding fifth paragraph hereof.

We express no opinion as to whether interest on the Bonds is excluded from gross income for federal income tax purposes or exempt from State of California personal income taxes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. We express no opinion regarding the Tax Certificate (including as it may be referenced in any Authority Document). We take no responsibility for the accuracy, completeness or fairness of the Official Statement, as defined below, or other offering material relating to the Bonds and express no opinion with respect thereto, except as expressly set forth in numbered paragraph 2 below.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that:

1. The Authority is a public instrumentality duly organized and validly existing under the Constitution and laws of the State of California.

2. The official statement dated _____, 2010 relating to the Bonds (the “Official Statement”) has been duly authorized, executed and delivered by the Authority, and the information contained in the Official Statement under the headings “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION” (solely as it relates to the Authority) is correct and does not omit any statement which, in our opinion, should be included or referred to therein.

3. "Resolution of the California Pollution Control Financing Authority Delegating Certain Powers Related to Bond Financings to the Executive Director and the Deputy Executive Director" and Final Resolution No. 501 of the Authority, each adopted on May 26, 2010, approving and authorizing the execution and delivery of the Authority Documents, and the Bonds and the Official Statement, were duly adopted at a meeting of the governing body of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

4. There is no action, suit or proceeding pending (with service of process against the Authority having been accomplished) before any court, governmental agency, public board or body, or to our knowledge threatened, against the Authority to restrain or enjoin the issuance or delivery of the Bonds, the collection of Revenues pledged under the Indenture, the assignment of the Loan Agreement under the Indenture or the loaning of the proceeds of the Bonds to the Borrower under the Loan Agreement, or contesting any authority for the issuance of the Bonds, the validity of the Bonds, or the Authority Documents, or contesting the existence or powers of the Authority with respect to the issuance of the Bonds or the security therefore wherein an unfavorable decision, ruling or finding would have a material adverse effect on the transactions contemplated by the Authority Documents or the validity of the Bonds (it being understood that we have made no docket search of state or federal courts nor any other similar inquiry regarding such matters).

5. The execution and delivery of the Bonds and the Authority Documents by the Authority and the Authority's compliance with the provisions thereof under the circumstances contemplated thereby do not and will not conflict with or constitute on the part of the Authority a breach of or default under any agreement or other instrument known to us to which the Authority is a party or by which it is bound, or under any existing law, regulation, court order or consent decree to which the Authority is subject, which conflict, breach or default would have a material adverse effect on the validity of the Bonds or the Authority Documents; provided that no representation is made regarding compliance with any federal or state securities or "blue sky" laws.

6. The Authority Documents have been duly authorized, executed, and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, are valid and binding obligations of the Authority enforceable in accordance with their respective terms, subject to the laws relating to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws related to or affecting creditors' remedies generally and to the application of equitable principles as the court having jurisdiction may impose, regardless of whether such enforceability is considered in a proceeding in equity or law, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability, or waiver provisions contained in the Authority Documents.

7. The representations of the Authority set forth in Section 4 of the Purchase Contract are, as to all matters of law, true and accurate in all material respects at and as of the date hereof as though made on this date; and such representations are, as to all other matters, to our knowledge, true and accurate in all material respects at and as of the date hereof as though made on this date.

We are furnishing this letter to you as your counsel. It is being delivered to you as issuer of the Bonds, is solely for your benefit as such issuer, and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of the Bonds or by any other party to whom it is not specifically addressed.

Sincerely,

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FORM OF CERTIFICATE OF AUTHORITY

Closing Certificate

The undersigned BETTINA C. REDWAY, a Deputy Treasurer of the State of California, and MICHAEL PAPARIAN, Executive Director of the California Pollution Control Financing Authority (the "Authority"), a public instrumentality of the State of California, hereby certify to the following in connection with the issuance by the Authority on this date of the \$50,000,000 California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project) Series 2010A (the "Bonds") and the loan of the proceeds therefrom to San Jose Water Company (the "Borrower"); however, as to all matters of law, the Authority is relying on the advice of the Attorney General of the State of California, counsel to the Authority.

1. Michael Paparian is now, and at all times since at least the date shown opposite his name on the last page of this Certificate has been, the duly appointed and qualified officer of the Authority, holding the office of the Authority set forth below opposite his name. Bettina C. Redway is now, and at all times since at least the date shown opposite her name on the last page of this Certificate has been, a duly appointed and qualified deputy of the Treasurer of the State of California. Each of the undersigned by his or her signature confirms that the signature of the other undersigned is his or her genuine signature and that the signature of Julie Giordano set forth below is her genuine signature.

2. Bill Lockyer, Treasurer of the State of California and Chairman of the Authority, was duly authorized by the Authority to execute the Bonds, and pursuant to such authority each of the Bonds has been executed by his facsimile signature, which signature on the each of the specimen Bonds attached hereto as Exhibit A the undersigned Deputy Treasurer hereby confirms is genuine.

3. The seal printed upon the specimen Bonds attached hereto and impressed upon this Certificate below is the legally adopted and official seal of the Authority and such seal has been imprinted upon the Bonds. The specimen Bond attached hereto is identical in all respects with the Bonds this day delivered to the Trustee, on behalf of The Depository Trust Company, on behalf of Goldman, Sachs & Co., as the underwriter of the Bonds, and the Bonds are substantially in the form prescribed by the Indenture (as hereinafter defined).

4. The following individuals are now, and at all times since at least May 26, 2010 have been, the duly appointed and qualified officers and members of the Authority and the persons holding the offices set forth opposite their respective names and all action that has to be taken for such persons to qualify for such offices, including without limitation any and all filings, have been taken.

<u>Name</u>	<u>Authority Position</u>	<u>Office</u>
Bill Lockyer	Chairman	Treasurer of the State of California
John Chiang	Member	Controller of the State of California
Ana J. Mantosantos	Member	Director of Finance of the State of California

The following members of the Authority who, as of May 26, 2010, were state officials did, in accordance with Section 7.9 of the Government Code and Section 44515 of the Health and Safety Code of the State of California, duly designate the following persons to act for and represent said respective officials at the meeting of the Authority at which the Final Resolution (as hereinafter defined) was adopted:

<u>Name</u>	<u>Authority Position</u>	<u>Representative</u>
Bill Lockyer	Chairman	Bettina C. Redway
John Chiang	Member	Ruth Holton-Hodson
Ana J. Mantosantos	Member	Cynthia Bryant

Bettina C. Redway, as Deputy Treasurer of the State of California, is authorized to act on behalf of the State Treasurer of the State of California as the Chairman of the Authority, including without limitation, the authority to execute and deliver the Authority Documents (as hereinafter defined).

5. The undersigned Executive Director certifies that:

(a) the resolution attached hereto as Exhibit B is a full, true and correct copy of Initial Resolution No. 10-04 (the "Initial Resolution"), which was duly adopted at a regular meeting of the Authority held on March 24, 2010, of which meeting all of the members of the Authority had due notice and at which meeting a quorum was present and voting throughout;

(b) the resolution attached hereto as Exhibit C is a full, true and correct copy of the resolution of the Authority entitled "Resolution of the California Pollution Control Financing Authority Delegating Certain Powers and Authorizing Certain Actions Related to Bond Financings (the "Delegation Resolution"), which was duly adopted at regular meeting of the Authority held on May 26, 2010, of which meeting all of the members of the Authority had due notice and at which meeting a quorum was present and voting throughout;

(c) the resolution attached hereto as Exhibit D is a full, true, complete and correct copy of Resolution No. 501, which was duly adopted at a regular meeting of the Authority held on May 26, 2010 (the "Final Resolution" and, together with the Delegation Resolution, collectively referred to herein as the "Resolutions"), of which meeting all of the members of the Authority had due notice and at which meeting a quorum was present and voting throughout;

(d) the Resolutions have not been amended, modified or rescinded in any manner except as set forth therein since the respective dates of their adoption and the same are now in full force and effect; and

(e) the minutes attached hereto as Exhibit E are true, complete and correct copies of minutes of the meeting of the Authority held on May 26, 2010 at which the Final Resolution was adopted, as such minutes appear of record in the minute book of the Authority.

6. Pursuant to the Resolutions, Bill Lockyer, as Treasurer of the State of California, the Chairman of the Authority, or any of his Deputies, and Michael Paparian, Executive Director of the Authority, have been authorized to execute and deliver, on behalf of the Authority, the following documents except as otherwise set forth below; pursuant to such authority they have executed and delivered said documents or said documents have been executed and delivered on their behalf; and, assuming due authorization, execution and delivery by the other parties thereto, documents (a)-(f) below (collectively the "Authority Documents") are in full force and effect:

(a) Indenture, dated as of June 1, 2010 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee");

(b) Loan Agreement, dated as of June 1, 2010 (the "Loan Agreement"), by and between the Authority and the Borrower;

(c) Tax Certificate and Agreement, dated June 16, 2010, by and between the Authority and the Borrower;

(d) Bond Purchase Contract, dated June 9, 2010 (the "Purchase Contract"), by and among the Authority, the Treasurer of the State of California and the Underwriter, as approved by the Borrower (Michael Paparian, Executive Director, is the only signatory on behalf of the Authority);

(e) Blanket Issuer Letter of Representations to The Depository Trust Company;

(f) Official Statement for the Bonds, dated June 9, 2010 (Michael Paparian, Executive Director, is the only signatory on behalf of the Authority);
and

(g) Internal Revenue Service Form 8038.

7. Bill Lockyer, as Treasurer of the State of California and as agent for sale of the Bonds, has been authorized to execute and deliver the Purchase Contract as said agent for sale; pursuant to such authority, Julie Giordano, a duly appointed and qualified deputy of the Treasurer of the State of California, who is authorized to act on behalf of the Treasurer of the State of California, as agent for sale of the Bonds, executed and delivered the Purchase Contract.

8. The Bonds have been duly authorized, executed and delivered by the Authority and imprinted with the official seal of the Authority, and, assuming due authentication and delivery of the Bonds by the Trustee, are in full force and effect.

9. To the best knowledge of the undersigned after reasonable investigation, the Authority has fulfilled or performed each of its obligations contained in the Authority Documents required to be fulfilled or performed by it as of the date hereof.

10. The representations and warranties made by the Authority in the Indenture, the Loan Agreement and the Purchase Contract are true and correct in all material respects as of the date hereof, with the same effect as if made on, and with respect to the facts as of, the date hereof.

[REST OF PAGE INTENTIONALLY LEFT BLANK]

Dated and sealed as of the 16th day of June, 2010.

(Seal)

<u>Name</u>	<u>Appointment Date</u>	<u>Office</u>	<u>Signature</u>
Bettina C. Redway	1/8/07	Deputy Treasurer	_____
Michael Paparian	1/23/07	Executive Director	_____

Julie Giordano hereby confirms that she is now, and at all times since at least the date shown opposite her name set forth below, has been, a duly appointed and qualified deputy of the Treasurer of the State of California and that the signature set forth below is her genuine signature.

<u>Name</u>	<u>Appointment Date</u>	<u>Office</u>	<u>Signature</u>
Julie Giordano	11/30/09	Deputy Treasurer	_____

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EXHIBIT E

FORM OF OPINION OF COUNSEL TO THE BORROWER

[Closing Date]

California Pollution Control Financing Authority
[Address]

Wells Fargo Bank, National Association
[Address]

Goldman, Sachs & Co.
[Address]

Re: \$50,000,000
California Pollution Control Financing Authority
Revenue Bonds
(San Jose Water Company Project)
Series 2010A
(Opinion of [Special] Counsel to Borrower)

Ladies and Gentlemen:

This opinion letter is addressed to you pursuant to Section 7(d)(12) of the Bond Purchase Contract, dated June 9, 2010 (the "Purchase Contract"), among Goldman, Sachs & Co. (the "Underwriter"), the Treasurer of the State of California (the "Treasurer") and the California Pollution Control Financing Authority (the "Authority"), and approved by San Jose Water Company (the "Borrower"), providing for the purchase of \$50,000,000 principal amount of California Pollution Control Financing Authority Revenue Bonds (San Jose Water Company Project) Series 2010A (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of June 1, 2010 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee. Capitalized terms not otherwise defined herein shall have the respective meanings ascribed thereto in the Indenture or, if not defined in the Indenture, in the Purchase Contract. We have acted as [special] counsel to the Borrower in connection with the Bond Purchase Contract and the Loan Agreement, dated as of June 1, 2010 (the "Loan Agreement"), between the Authority and the Borrower.

In connection with this opinion letter, we have examined originals, or copies certified or otherwise identified to our satisfaction, of the articles of incorporation, as amended (the "Articles of Incorporation"), and bylaws, as amended (the "Bylaws"), of the Borrower and such other documents and records, and other instruments as we have deemed appropriate for purposes of the

opinions set forth herein, including the following documents (the documents referred to in clauses (a) through (d) below are referred to herein as the “Bond Documents”):

- (a) the Purchase Contract;
- (b) the Indenture;
- (c) the Loan Agreement;
- (d) the Continuing Disclosure Agreement; and
- (e) the Official Statement.

We have assumed the genuineness of all signatures (other than those of the Borrower), the legal capacity of natural persons, the authenticity of the documents submitted to us as originals, the conformity to the original documents of all documents submitted to us as certified, facsimile or photostatic copies, and the authenticity of the originals of all documents submitted to us as copies. We have also assumed that the Bond Documents constitute valid and binding obligations of each party thereto other than the Borrower.

As to any facts that are material to the opinions hereinafter expressed that we did not independently establish or verify, we have relied without investigation upon the representations of the Borrower contained in the Bond Documents and upon certificates of officers of the Borrower.

In rendering the opinions set forth herein, whenever a statement or opinion set forth therein is qualified by “to our knowledge,” “known to us” or by words of similar import, it is intended to indicate that, during the course of our representation of the Borrower in the subject transaction, no information has come to the attention of those lawyers in our firm who have rendered legal services in connection with such transaction that gives us actual knowledge of the inaccuracy of such statement or opinion. We have not undertaken any independent investigation to determine the accuracy of facts material to any such statement or opinion, and no inference as to such statement or opinion should be drawn from the fact of our representation of the Borrower.

We have relied upon a certificate of the [*Executive Vice President of Finance*] of the Borrower dated the date hereof, certifying that the items listed in such certificate are (i) all of the indentures, loan or credit agreements, leases, guarantees, mortgages, security agreements, bonds, notes, other agreements or instruments (the “Other Borrower Agreements”), and (ii) all of the judicial or administrative orders, writs, judgments, awards, injunctions and decrees (the “Borrower Orders”), which as to any matter in (i) or (ii) affect or purport to affect the Borrower’s right to borrow money or perform its obligations under the Loan Agreement.

Based upon and subject to the foregoing, and to the limitations and qualifications described below, we are of the opinion that:

1. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of California, with the corporate power and authority to own its properties and to conduct its current business as contemplated by the Official Statement.

2. The Borrower together with its affiliates is a “small business” as defined in Section 8020 of Title 4 of the California Code of Regulations.
3. The Project as described in Exhibit A of the Loan Agreement is a “project” and the Borrower together with its Participating Affiliates is a “participating party” under California Pollution Control Financing Authority Act, commencing with Section 44500 of the California Health and Safety Code, as now in effect.
4. The Loan Agreement, the Continuing Disclosure Agreement and the Purchase Contract have been duly authorized, executed and delivered by the Borrower and each is a valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.
5. No authorization, approval, consent or license of any regulatory body or authority of the United States or the State of California not already obtained is required for the authorization, execution, delivery and performance of the Loan Agreement, the Continuing Disclosure Agreement or the Purchase Contract.
6. The execution and delivery of the Loan Agreement, the Continuing Disclosure Agreement, the Official Statement and the Purchase Contract, and the performance by the Borrower of the Loan Agreement, the Continuing Disclosure Agreement and the Purchase Contract by the Borrower, will not result in (i) a violation of the Articles of Incorporation or Bylaws, (ii) a breach or a default under any Other Borrower Agreement, (iii) a violation of any Borrower Order, or (iv) a violation of any law, rule or regulation of any administrative or governmental body having jurisdiction over the Borrower or its property.
7. Except as disclosed in the Official Statement, (i) to our knowledge, there are no pending or threatened lawsuits or other proceedings against the Borrower (1) which seek to restrain or enjoin the issuance or delivery of the Bonds, or the collection of the payments to be made pursuant to the Indenture or the Loan Agreement, (2) in any way contest or affect the authority for the issuance and delivery of the bonds or the validity of the Purchase Contract, the Bonds, the Indenture, the Loan Agreement, the Continuing Disclosure Agreement, the Official Statement or the resolutions of the Borrower relating to the financing of the Project and the Bonds, (3) contest the corporate existence or powers of the Borrower; or (4) contest or affect the powers of the Borrower to enter into or perform its obligations or consummate the transactions contemplated under any of the foregoing; and (ii) to our knowledge, the Borrower is not in default with respect to any

order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default would materially and adversely affect the consummation of the transactions contemplated by the Purchase Contract, the Bonds, the Indenture, the Loan Agreement, the Continuing Disclosure Agreement or the financial condition, assets, properties or operations of the Borrower.

The opinions expressed above are subject to the following limitations, exceptions, qualifications and assumptions:

A. The opinions expressed herein are subject to bankruptcy, insolvency, fraudulent transfer and other similar laws affecting the rights and remedies of creditors generally and general principles of equity, including concepts of materiality, reasonableness, good faith and fair dealing.

B. Provisions of the Bond Documents relating to indemnification or exculpation may be limited by public policy or by law.

C. The opinions expressed in this opinion letter are limited to the laws of the State of California and the federal laws of the United States of America, and we express no opinion with respect to the laws of any other state or jurisdiction.

D. For purposes of our opinions in paragraphs 1 hereof as to the due incorporation, valid existence and good standing of the Borrower, we have relied solely upon good standing or similar certificates issued by the appropriate authorities in the subject jurisdictions.

E. Certain waivers by the Borrower in the Bond Documents may relate to matters that cannot, as a matter of law, be effectively waived.

F. The enforceability of the Bond Documents, may be limited by the unenforceability under certain circumstances of provisions imposing penalties, forfeitures, late payment charges or an increase in interest rate upon delinquency in payment or an occurrence of default.

G. For purposes of the opinion in paragraph 6(ii), where any Other Borrower Agreement states that it is governed by laws of a state other than the laws of California, we have not made any investigation of the laws of such other state but have merely assumed that they would be interpreted in accordance with their plain meaning. We have not reviewed the covenants in the Other Borrower Agreements that contain financial ratios and other similar financial restrictions, and no opinion is provided with respect thereto.

H. For purposes of the opinion in paragraph 6(v), we have considered only such laws and regulations that in our experience are typically applicable to a transaction of the nature contemplated by the Bond Documents.

I. We express no opinion as to the enforceability of any provision of the Bond Documents permitting modification thereof only by means of an agreement in writing signed by the parties thereto.

The purpose of our professional engagement was not to establish or confirm factual matters set forth in the Official Statement, and we have not undertaken any obligation to verify independently any of the factual matters set forth in the Official Statement. Moreover, many of the determinations required to be made in the preparation of Official Statement involve matters of a non-legal nature. In addition, we note that we have not advised the Borrower with regard to California public utilities matters.

Subject to the foregoing, we confirm to you that, on the basis of the information we gained in the course of performing the services referred to above, nothing came to our attention that caused us to believe that the disclosures in in Official Statement (except information concerning DTC and the book-entry only system and disclosures contained under the captions "THE AUTHORITY", "ABSENCE OF MATERIAL LITIGATION" (solely as it relates to the Authority), "UNDERWRITING" and "TAX MATTERS") as of the date of the Official Statement and as of the date hereof contained or contains any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that (a) we do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, and (b) we do not express any belief with respect to the financial statements, schedules, notes, other financial and accounting data and statistical data derived therefrom, and information about internal control over financial reporting, contained in the Official Statement.

This opinion letter is effective only as of the date hereof. We do not assume responsibility for updating this opinion letter as of any date subsequent to its date, and we assume no responsibility for advising you of any changes with respect to any matters described in this opinion letter that may occur subsequent to the date of this opinion letter or from the discovery, subsequent to the date of this opinion letter, of information not previously known to us pertaining to the events occurring prior to such date.

This opinion letter is furnished by us solely for the benefit of the Authority, the Underwriter and the Trustee, and this opinion letter may not be relied upon by such parties for any other purpose or by any other person or entity for any purpose whatsoever; however, Leslie M. Lava, Esq., Bond Counsel to the Authority, may rely on paragraph 4 hereof. This opinion letter is not to be quoted in whole or in part or otherwise referred to or used or furnished to any other person, except as may be required by any governmental authority or pursuant to legal process, without our express written consent, except that reference may be made to this opinion letter in the closing memorandum relating to the Bonds and this opinion letter may be included in the related closing transcripts.

Very truly yours,

EXHIBIT F

UNDERWRITER'S REPORT TO THE AUTHORITY

STATE OF CALIFORNIA
 CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
 TARGET BUSINESS ENTERPRISE
 PARTICIPATION IN PROFESSIONAL BOND SERVICES REPORT

NEGOTIATED SALE

(Completed by the Senior Manager)

Issuer: CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

Issue Description:

Amount: Sale Date: Closing Date:

Senior Manager:

Contact Person:

1. SUMMARY OF GROSS SPREAD:

(Paid from Other Sources)

	<u>Per \$1,000</u>	<u>Gross Amount</u>	<u>% of Total Issue</u>
Management Fee			
Takedown			
Risk			
Expenses			
Total Spread			

2. MANAGEMENT FEE

Total:

	<u>DVBE* Firm? Yes/No</u>	<u>Management Fee</u>	<u>% of Total</u>
Senior Manager:			
Co-Senior Manager:			
Co-Managers:			

* DVBE means Disabled Veteran Business Enterprises as defined in Military and Veterans Code Section 999.

3. TAKEDOWN

a. Gross Takedown

Less: Identified Concessions

Net Takedown

=====

b. Takedown by Senior Manager / Co-Managers / Syndicate member / Selling group member (including income derived from designated and group sales):

<u>Firm</u>	<u>DVBE Firm? Yes/No</u>	<u>Takedown Excluding Identified Concessions</u>	<u>% of Total</u>
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2. RISK

Total:

Senior Manager:

Co-Senior Manager:

Co-Managers:

DVBE Firm? Yes/No

5. EXPENSES:

a. Summary of Expenses:

	<u>Paid From Bond Proceeds</u>	<u>Percent of Issue</u>	<u>Paid From Other Sources</u>	<u>Percent of Issue</u>
Underwriter's expenses				
Other Costs of issuance				
Total Expenses:	_____	_____	_____	_____

b. Breakdown of Expenses:

	<u>Firm</u>	<u>DVBE Firm? Yes/No</u>	<u>Paid from:</u>	
			<u>Bond Proceeds</u>	<u>Other Sources</u>
Underwriter's Expenses:				
CDIAC Fees				
BECON				
Day Loan				
State Municipal Advisory				
BMA Fee				
CUSIP Costs				
DTC				
Travel				
Other				
Total Underwriter's Expenses			_____	_____

* Indicates underwriter's expenses that were paid from bond proceeds but not included in the gross spread.

5. EXPENSES (continued):

Costs of Issuance:	Firm	DVBE Firm? Yes/No	Paid from:	
			Bond Proceeds	Other Sources
Issuer's Counsel				
Bond Counsel				
Tax Counsel				
Underwriter's Counsel				
Trustee/Tender Agent				
Trustee's Counsel				
Rating Agency				
Accountant				
Underwriter's Fee				
Borrower's counsel				
Borrower's Co-Counsel				
Official Statement Printing				
STO Agent for Sale	State Treasurer			
CDLAC Fees (net of initial application fee)	CDLAC			
Subtotal Financing Costs				
First Year's LOC Fee				
LOC Issuance Fee				
Bank Counsel				
Appraisal, Environmental				
Miscellaneous				
Subtotal Bank Costs				
Total Costs of Issuance (Per the Indenture & Tax Agreement)				

6. GRAND TOTAL (ALL COSTS)

(i)	CPCFA subsidy item; total subsidy =	of the Bond Size
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7. For Variable Rate Issues, Indicate:

- a. Annual Remarketing Agent Fee of Outstanding Principal
- b. Index or Method of Calculation:

Prepared by:

Date:

CERTIFICATIONS

I, W. Richard Roth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SJW Corp. (the “registrant”);

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 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 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 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 6, 2010

/s/ W. RICHARD ROTH

W. Richard Roth
President and Chief Executive Officer
(Principal executive officer)

CERTIFICATIONS

I, David A. Green, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SJW Corp. (the “registrant”);

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 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 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 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 6, 2010

/s/ DAVID A. GREEN

David A. Green
Chief Financial Officer and Treasurer
(Principal financial officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SJW Corp. (the "Company") on Form 10-Q for the quarter ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. Richard Roth, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge on the date hereof:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W. RICHARD ROTH

W. Richard Roth

President and Chief Executive Officer

(Principal executive officer)

August 6, 2010

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SJW Corp. (the "Company") on Form 10-Q for the quarter ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Green, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge on the date hereof:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID A. GREEN

David A. Green

Chief Financial Officer and Treasurer

(Principal financial officer)

August 6, 2010