

During 2001 and 2002, the Company committed up to \$7.6 million of the its bank line of credit to a contractor for construction of a customer and operation center. The tax-free exchange of seven surplus Company properties to the contractor for the new customer and operations center was completed on September 30, 2002. Because the transaction was structured as a property exchange, acquiring the new facility did not require a significant expenditure of cash. Under terms of the exchange agreement, during the construction period the Company had guaranteed the contractor's bank loan. The new facility, which is valued at over \$7 million, served as security to the Company for the guarantee. When the property exchange was completed, the contractor paid off the bank loan, and the Company was released from its guarantee.

In 2002, the Company agreed to acquire the Kaanapali Water Corporation for \$7,700,000 in cash. The acquisition is subject to approval of the Hawaii Public Utilities Commission, which is expected in mid-2003. Also in 2002, the New Mexico Water signed an agreement to purchase National Utilities Corporation for approximately \$700,000 in cash. The purchase of National Utilities is subject to the approval of the New Mexico Public Regulation Commission, which is expected in the third quarter of 2003.

Contingencies In 1995, the State of California's Department of Toxic Substances Control (DTSC) named the Company as a potential responsible party for cleanup of a toxic contamination plume in the Chico groundwater. The toxic spill occurred when cleaning solvents, which were discharged into the city's sewer system by local dry cleaners, leaked into the underground water supply due to breaks in the city's sewer pipes. The DTSC contends that the Company's responsibility stems from its operation of wells in the surrounding vicinity that caused the contamination plume to spread. While the Company intends to cooperate with the cleanup effort, it denies any responsibility for the contamination or the resulting cleanup and intends to vigorously resist any action that may be brought against it. The Company has negotiated with DTSC regarding dismissal of the Company from the claim in exchange for the Company's cooperation in the cleanup effort. However, no agreement was reached with DTSC regarding dismissal of the Company from the DTSC action. In December 2002, the Company was named along with eight other defendants in a lawsuit filed by DTSC for the cleanup of the plume. The suit asserts that the defendants are jointly and severally liable for the estimated cleanup of \$8.7 million. The Company believes that it has insurance coverage for this claim and that if it were ultimately held responsible for a portion of the cleanup costs, there would not be a material adverse effect on the Company's financial position or results of operations.

In July 2002, the Company was served with a lawsuit in state court naming it as one of several defendants for damages alleged to have resulted from waste oil contamination in the Company's drinking water. The suit did not specify a dollar amount. The Company does not believe that the complaint alleges any facts under which it may be held liable. The Company has filed a motion to dismiss the suit on various grounds. The Court has not ruled on the Company's motion. If necessary, the Company intends to vigorously defend the suit. In 2000, the plaintiff in this action brought a suit against the Company in federal court with similar allegations concerning drinking water contamination. That suit was dismissed; however, the Court did not bar the plaintiff from filing an amended complaint. The Company's insurance carrier is paying for legal defense costs and the Company believes that its insurance policy will cover all costs related to this matter.

In December 2001, the Company and several other defendants were served with a lawsuit by the estate and immediate family members of a deceased employee of a pipeline construction contractor. The contractor's employee had worked on various Company projects over a number of years. The plaintiffs allege that the Company and other defendants are responsible for an asbestos-related disease that is claimed to have caused the death of the contractor's employee. The complaint seeks damages in excess of \$50,000, in addition to unspecified punitive damages. The Company denies responsibility in the case and intends to vigorously defend itself. Pursuant to an indemnity provision in the contracts between the contractor and the Company, the contractor has accepted liability for the claim against the Company and is reimbursing the Company for its defense costs.

The Company and City of Stockton (City) purchase water from Stockton East Water District (SEWD). The City has discussed with SEWD its belief that SEWD's meter, which recorded water deliveries to the City's system, malfunctioned for some period of time, and as a result the City overpaid for water