

CALIFORNIA WATER SERVICE GROUP

Form 424B2

October 06, 2006

Table of Contents

Filed Pursuant to Rule 424(b)(2)
 Registration No. 333-136844

PROSPECTUS SUPPLEMENT

(To Prospectus dated September 27, 2006)

**California Water Service Group
 2,000,000 Shares of Common Stock**

We are selling 2,000,000 shares of our common stock. Our common stock is listed on the New York Stock Exchange under the symbol CWT. On October 5, 2006, the last reported sale price of our common stock on the New York Stock Exchange was \$37.57 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 3 of the accompanying prospectus for a description of various risks you should consider in evaluating an investment in the shares.

	Per Share		Total	
Public offering price	\$	36.750	\$	73,500,000
Underwriting discount	\$	1.378	\$	2,756,000
Proceeds, before expenses, to us	\$	35.372	\$	70,744,000

The underwriters have a 30-day option to purchase up to 300,000 additional shares of common stock from us on the same terms set forth above to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

**Robert W. Baird & Co.
 Edward Jones
 October 6, 2006**

J.J.B. Hilliard, W.L. Lyons, Inc.

**A.G. Edwards
 Stifel Nicolaus**

Table of Contents

Page

Prospectus Supplement

About This Prospectus Supplement

S-i

Forward-Looking Statements

S-ii

Summary

S-1

The Offering

S-2

Use of Proceeds

S-3

Recent Developments

S-3

Market Price, Dividends and Dividend Policy

S-4

Plan of Distribution

S-5

Legal Matters

S-7

Prospectus

About This Prospectus

i

California Water Service Group

1

Risk Factors

3

Forward-Looking Statements

14

Use of Proceeds

15

Ratio of Earnings to Fixed Charges and Preferred Stock Dividends

15

Description of Preferred Stock

16

Description of Common Stock

19

Rights Agreement

19

Anti-Takeover Effects of Our Certificate of Incorporation, Amended Bylaws and Delaware Law

21

Plan of Distribution

22

Legal Matters

23

Experts

23

Where You Can Find More Information

23

About This Prospectus Supplement

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. You should read this prospectus supplement along with the accompanying prospectus, as well as additional information described under Where You Can Find More Information before investing in our common stock. These documents contain information you should consider when making your investment decision. You should rely only on the information contained or incorporated by reference into this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different or additional information. If anyone provides you with different, additional or inconsistent information, you should not rely on it.

We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates, or in the case of the documents incorporated by reference, the date of such documents regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or any sales of our common stock. Our business, financial condition, results of operations and prospects may have changed since those dates.

References in this prospectus supplement to we, us and our refer to California Water Service Group and its consolidated subsidiaries, unless the context indicates another meaning.

Information contained on our Web site is not a part of this prospectus supplement.

S-i

Table of Contents

Forward-Looking Statements

This prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference contain forward-looking statements within the meaning of the federal securities laws. The forward-looking statements are intended to qualify for the safe harbor treatment established by the Securities Act of 1933, as amended by the Private Securities Litigation Reform Act of 1995.

Forward-looking statements in this prospectus supplement, the accompanying prospectus and in the documents we incorporate by reference are based on currently available information, expectations, estimates, assumptions and projections, and our management's beliefs, assumptions, judgments and expectations about us, the water utility industry and general economic conditions. These statements are not statements of historical fact. When used in our documents, statements that are not historical in nature, including words like expects, intends, plans, believes, may, estimates, assumes, anticipates, projects, predicts, forecasts, should, seeks, or variations of these words or expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward-looking statement.

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

- governmental and regulatory commissions' decisions, including decisions on proper disposition of property;
- changes in regulatory commissions' policies and procedures;
- the timeliness of regulatory commissions' actions concerning rate relief;
- new legislation;
- changes in accounting valuations and estimates;
- the ability to satisfy requirements related to the Sarbanes-Oxley Act and other regulations on internal controls;
- electric power interruptions;
- increases in suppliers' prices and the availability of supplies including water and power;
- fluctuations in interest rates;
- changes in environmental compliance and water quality requirements;
- acquisitions and the ability to successfully integrate acquired companies;
- the ability to successfully implement business plans;
- changes in customer water use patterns;
- the impact of weather on water sales and operating results;
- changes in the capital markets and access to sufficient capital on satisfactory terms;
- civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type;
- the involvement of the United States in war or other hostilities;
- our ability to attract and retain qualified employees;
- labor relations matters as we negotiate with the unions;
- restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends; and
- the risks set forth in "Risk Factors" included in the accompanying prospectus and in the documents we incorporate by reference.

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

events or otherwise.

S-ii

Table of Contents

Summary

*This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement. Because this is a summary, it is not complete and does not contain all of the information that may be important to you. For a more complete understanding of us and this offering of our common stock, we encourage you to read this prospectus supplement and the accompanying prospectus in their entirety, as well as additional information described under *Where You Can Find More Information*.*

California Water Service Group

California Water Service Group is a holding company primarily for regulated water utilities in California, Washington, New Mexico and Hawaii. Our principal business is the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. The rates that our regulated subsidiaries charge water customers are subject to the jurisdiction of the regulatory commission in the states in which we operate. We also serve a small number of non-regulated customers through a wholly-owned operating subsidiary.

California Water Service Company, our subsidiary in California, is the largest of our operating companies, representing approximately 95% of our regulated customers as of June 30, 2006. We supply water service to approximately 458,000 customers in 75 California communities through 26 separate water systems or districts.

Our regulated water utility operations in Washington state are conducted by our subsidiary Washington Water Service Company and comprised 3% of our total customers as of June 30, 2006. We provide domestic water and wastewater service to approximately 15,300 customers in the Tacoma and Olympia areas.

Our regulated water utility operations in New Mexico and Hawaii are conducted by our subsidiaries in those states and accounted for less than 2% of our total customers as of June 30, 2006. We provide service to approximately 6,700 customers in New Mexico and 500 customers in Hawaii.

Our non-regulated activities are primarily conducted through our subsidiary, CWS Utility Services. We do not track the number of customers for these non-regulated operations, except for operations in California in the City of Hawthorne and City of Commerce. In those two cities, we operate the water systems under lease agreements and the rates we charge are not subject to review by the California Public Utilities Commission.

Our principal executive office is located at 1720 North First Street, San Jose, California 95112, and our telephone number is 408-367-8200. We maintain a website at www.calwatergroup.com where certain additional information about us may be found. We undertake no obligation to update the information found on our website. The information on the website is not a part of this prospectus supplement, the accompanying prospectus or the registration statement, but is referenced and maintained as a convenience to investors.

Table of Contents

The Offering

Issuer	California Water Service Group
Common stock offered	2,000,000 shares (plus up to 300,000 additional shares that may be issued by us upon exercise of the underwriters' over-allotment option).
Common stock outstanding after the offering ⁽¹⁾	20,406,963 shares. If the underwriters exercise their over-allotment option in full, we will issue an additional 300,000 shares, which will result in 20,706,963 shares outstanding.
Current indicated annual dividend per share ⁽²⁾	\$1.15 (see Market Price, Dividends and Dividend Policy included elsewhere in this prospectus supplement).
NYSE symbol	CWT

- (1) The number of shares of our common stock outstanding after the offering set forth above is based on 18,406,963 shares of common stock outstanding as of October 5, 2006 and includes the shares to be sold by us in this offering. The number of shares outstanding after the offering excludes 90,500 shares issuable upon exercise of options outstanding on October 5, 2006 and 40,000 shares of common stock reserved for issuance under our Equity Incentive Plan.
- (2) Based upon the third quarter of 2006 dividend rate of \$0.2875 per share annualized. Future dividends, if any, may be declared and paid at the discretion of our board of directors and will depend on our future earnings, financial condition and other factors.

Table of Contents

Use of Proceeds

We will receive approximately \$70,242,950 in net proceeds from the sale of the common stock we are offering pursuant to this prospectus supplement, after deducting an aggregate of approximately \$2,756,000 in underwriting discounts and commissions and \$501,050 in estimated offering expenses. If the underwriters' over-allotment option is exercised in full, we estimate that our net proceeds will be approximately \$80,854,550.

The principal purpose of this offering is to make capital expenditures to enhance our general operations. We intend to add the net proceeds from the sale of the common stock to our general funds to be used for general corporate purposes, such as investing in our subsidiaries, increasing our working capital, making capital expenditures, acquiring assets and taking advantage of other business opportunities.

Recent Developments

During the first six months of 2006 some of our service territories in California experienced significantly above average precipitation and cooler temperatures than is average during the first six months of a year in those service territories. In contrast, during the fourth quarter of 2005, our service territories in California experienced hotter and drier weather than average. Increased precipitation and cooler temperatures result in a decrease in demand for water and adversely affect our revenues, while decreased precipitation and warmer temperatures result in an increase in demand for water and positively affect our revenues. We can give you no assurance that the weather in a future period will be comparable to prior periods. Consequently, year-over-year comparisons of our results in any given quarter may not be meaningful if the weather patterns in one year differed significantly from the weather patterns in the year to which such quarter is being compared. For more information about the risks we face from variable weather please see **Risk Factors - Risks Related to Our Business Operations - Demand for our water is subject to various factors and is affected by seasonal fluctuations** on page 5 of the accompanying prospectus.

Table of Contents**Market Price, Dividends and Dividend Policy**

Our common stock is listed on the New York Stock Exchange under the symbol CWT . The following table sets forth the high and low closing sale prices on the New York Stock Exchange and the cash dividends declared on the common stock for the periods indicated.

Period	High	Low	Dividends
2004:			
First Quarter			
	\$29.99	\$27.25	\$0.2825
Second Quarter			
	30.15	26.60	0.2825
Third Quarter			
	29.45	26.19	0.2825
Fourth Quarter			
	37.70	28.20	0.2825
2005:			
First Quarter			
	\$36.76	\$32.12	\$0.2850
Second Quarter			
	38.12	32.85	0.2850
Third Quarter			
	41.90	36.93	0.2850
Fourth Quarter			
	41.09	32.64	0.2850
2006:			
First Quarter			
	\$45.05	\$38.51	\$0.2875
Second Quarter			
	45.36	33.72	0.2875
Third Quarter			
	38.60	33.83	0.2875

On October 5, 2006, the last reported closing price of our common stock on the New York Stock Exchange was \$37.57 per share and on September 7, 2006 we had approximately 3,010 holders of record of our common stock.

Dividend Policy

We have consistently paid a cash dividend on our common stock on a quarterly basis. Each quarter, our board of directors considers the declaration of a dividend.

After all cumulative dividends are declared and paid or set aside on our Series C preferred stock and on any other series of preferred stock which may be outstanding in the future, our board of directors may declare any additional dividends on our common stock. We can make dividend payments only from our surplus (the excess, if any, of our net assets over total paid-in capital) or if there is no surplus, the net profits for the current fiscal year or the fiscal year before which the dividend is declared. In addition, we can pay cash dividends only if after paying those dividends we would be able to pay our liabilities as they become due. Owners of our common stock cannot force us to pay dividends and dividends will only be paid if and when declared by our board of directors.

We cannot assure you that we will pay a dividend at any time in the future or that we will raise the level of dividends in the future. Our board of directors can elect at any time, and for an indefinite duration, not to declare dividends on our common stock. Future dividends will depend on our future earnings, financial condition and other factors, including whether we receive dividends from our operating subsidiaries. Our subsidiaries are separate and distinct legal entities and generally have no obligation to provide us with funds for dividends. Moreover, our subsidiaries are obligated to give first priority to their own capital requirements and to maintain a capital structure consistent with that determined to be reasonable by the relevant commissions in their most recent decisions on capital structure in order that ratepayers not be adversely affected by the holding company structure. Furthermore, our right to receive cash or other assets upon the liquidation or reorganization of a subsidiary is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from our subsidiaries in a timely manner we may be unable to pay dividends.

S-4

Table of Contents**Plan of Distribution**

We have entered into an underwriting agreement with the underwriters named below with respect to the shares of common stock to be offered pursuant to this prospectus supplement. Subject to the terms and conditions contained in the underwriting agreement, we have agreed to sell and each underwriter has severally agreed to purchase from us the number of shares of our common stock set forth opposite its name in the following table:

Underwriter	Number of Shares
Robert W. Baird & Co. Incorporated	830,000
A.G. Edwards & Sons, Inc. 780,000	
Edward D. Jones & Co., L.P. 130,000	
J.J.B. Hilliard, W.L. Lyons, Inc. 130,000	
Stifel, Nicolaus & Company, Incorporated 130,000	
Total 2,000,000	

The underwriters' obligations are several, which means that each underwriter is required to purchase a specific number of shares of our common stock, but it is not responsible for the commitment of any other underwriter. The underwriting agreement provides that each of the underwriters' several obligations to purchase shares of our common stock depend upon the satisfaction of the conditions contained in the underwriting agreement, including:

the representations and warranties made by us to the underwriters are true and our agreements have been performed;

there is no material adverse change in the financial markets; and

we deliver customary closing documents to the underwriters.

The underwriters are obligated to purchase and pay for all the shares of our common stock offered pursuant to this prospectus supplement, if any such shares are purchased. However, the underwriters are not obligated to take or pay for the shares of our common stock covered by the underwriters' over-allotment option described below, unless and until this option is exercised.

Over-Allotment Option

We have granted to the underwriters a 30-day option to purchase on a *pro rata* basis up to 300,000 additional shares of our common stock at the public offering price less the underwriting discounts and commissions.

We will be obligated to sell these shares of common stock to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the common stock offered by this prospectus supplement.

Discounts and Commissions

The underwriters propose to offer the shares of our common stock initially at the public offering price on the cover page of this prospectus supplement and to selling group members at such price less a selling concession of up to \$0.825 per share. The underwriters and selling group members may allow a discount of \$0.10 per share on sales to other broker/dealers. After the public offering, the underwriters may change the public offering price, concession and

discount to broker/dealers.

As used in this section:

Underwriters are securities broker/dealers that are parties to the underwriting agreement and have a contractual commitment to purchase shares of our common stock from us;

Selling group members are securities broker/dealers to whom the underwriters may sell shares of our common stock at the public offering price less the selling concession above, but who do not have a contractual commitment to purchase shares from us;

S-5

Table of Contents

Broker/dealers are firms registered under applicable securities laws to sell securities to the public; and

The syndicate consists of the underwriters and the selling group members.

The following table summarizes the compensation to be paid to the underwriters:

		Total	
	Per Share	Without Over-Allotment	With Over-Allotment
Public Offering Price	\$ 36.750	\$ 73,500,000	\$ 84,525,000
Underwriting Discounts and Commissions payable by us	1.378	2,756,000	3,169,400
Proceeds to Us	\$ 35.372	\$ 70,744,000	\$ 81,355,600

The underwriting fee will be an amount equal to the offering price per share to the public of the common stock, less the amount paid by the underwriters to us per share of common stock. The underwriters' compensation was determined through arms-length negotiations between us and the underwriters.

We estimate the expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately \$501,050. Estimated expenses include the U.S. Securities and Exchange Commission filing fees, New York Stock Exchange listing fees, printing, legal, accounting and transfer agent and registrar fees, and other miscellaneous fees and expenses.

Lock-Up Arrangement

Our directors and key officers have agreed not to (1) offer, sell, transfer, pledge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, to right or warrant to purchase, lend or otherwise transfer or dispose, (2) enter into any swap or similar arrangement, or (3) file with the SEC a registration statement under the Securities Act of 1933, as amended, relating to any additional shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock without the prior written consent of Robert W. Baird & Co. Incorporated for a period of 90 days after the date of this prospectus supplement.

These restrictions will not apply to:

the grant of options to purchase our common stock or the sale of shares of common stock to our employees pursuant to our written stock option plans and/or written employee stock purchase plans in existence as of the date of this prospectus supplement;

issuance of shares of our common stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date of this prospectus supplement;

transactions relating to shares of our common stock acquired by such persons in open market transactions following completion of this offering;

transfers by our directors and key officers by gift, will or intestacy so long as the transferee agrees not to make further transfers of the shares during the 90-day period; and

issuance of shares of common stock in full or partial consideration for any future acquisitions or strategic investments.

The 90-day period may be extended under certain circumstances when we announce earnings or material news or a material event during the last 17 days of the 90-day period, or if prior to the expiration of the 90-day period we announce that we will release earnings within the 16-day period after the last day of the 90-day period.

Indemnity

We have agreed to indemnify the underwriters against certain liabilities under the Securities Act or to contribute to payments that the underwriters may be required to make in that respect.

S-6

Table of Contents

Our Relationship with the Underwriters

Some of the underwriters and their affiliates have provided, and may provide in the future, advisory and investment banking services to us, for which they have received and would receive customary compensation. With the exception of Robert W. Baird & Co., each of the underwriters has acted as an underwriter in our prior public offerings. In addition, A.G. Edwards advised us on our acquisition of Dominguez Services Corporation in 2000.

Stabilization

The underwriters may engage in over-allotment transactions, stabilizing transactions and syndicate covering transactions in accordance with Regulation M under the Securities Exchange Act of 1934, as amended.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position.

Stabilizing transactions permit bids to purchase shares of our common stock so long as the stabilizing bids do not exceed a specified maximum.

Syndicate covering transactions involve purchases of our common stock in the open market after the distribution has been completed to cover syndicate short positions.

These stabilizing transactions and syndicate covering transactions may cause the price of our common stock to be higher than the price that might otherwise exist in the open market. Neither we nor the underwriters makes any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Legal Matters

Certain legal matters will be passed upon for the underwriters by Michael Best & Friedrich LLP, Milwaukee, Wisconsin.

Table of Contents

PROSPECTUS

**California Water Service Group
1720 North First Street
San Jose, CA 95112
408-367-8200
\$150,000,000
Preferred Stock and Common Stock**

We plan to offer to the public from time to time:

our preferred stock; and

our common stock.

Our common stock trades on the New York Stock Exchange under the symbol CWT.

This prospectus provides you with a general description of the securities we may offer. We may offer the securities as separate series, in amounts, prices and on terms determined at the time of the sale. When we offer securities, we will provide a prospectus supplement describing the terms of the specific securities offered, including the offering price. You should read both this prospectus and any prospectus supplement, together with the additional information described under the heading **Where You Can Find More Information** beginning on page 23 of this prospectus, before you make your investment decision.

Investing in these securities involves risks. See Risk Factors beginning on page 3 of this prospectus.

We will sell the securities to underwriters or dealers, through agents, or directly to investors.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

The date of this prospectus is September 27, 2006.

Table of Contents

About This Prospectus

i

California Water Service Group

1

Risk Factors

3

Forward-Looking Statements

14

Use of Proceeds

15

Ratio of Earnings to Fixed Charges and Preferred Stock Dividends

15

Description of Preferred Stock

16

Description of Common Stock

19

Rights Agreement

19

Anti-Takeover Effects of Our Certificate of Incorporation, Amended Bylaws and Delaware Law

21

Plan of Distribution

22

Legal Matters

23

Experts

23

Where You Can Find More Information

23

About This Prospectus

This document is called a prospectus and is part of certain registration statements that we have filed with the Securities and Exchange Commission (the SEC) using a shelf registration or continuous offering process. Under this shelf process, we may, from time to time, sell any combination of the various securities described in the registration statements, this prospectus or in any prospectus supplement, in one or more offerings that will aggregate up to a total dollar amount of \$150 million. In August 2003 we sold common stock to the public in an amount of \$45,937,500 and in June 2004 we sold \$38,414,325 of shares of common stock registered pursuant to a registration statement on Form S-3 (No. 333-103721). As of the date of the date of this prospectus, the amount of securities remaining for sale under that registration statement is approximately \$35.6 million.

Unless the context otherwise requires, throughout this prospectus, the terms we, us and our refer to California Water Service Group, and each of our wholly-owned subsidiaries.

This prospectus provides you with a general description of the securities we may offer. Each time we sell such securities, we will provide a prospectus supplement containing specific information about the terms of the securities being offered. That prospectus supplement may include a discussion of specific risk factors or other special considerations applicable to those securities. The prospectus supplement may also add, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading Where You Can

Find More Information.

The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us and the securities offered under this prospectus. The registration statement, including the exhibits, can be obtained from the SEC website or from the SEC offices referenced under the heading **Where You Can Find More Information**.

You should rely only on the information incorporated by reference or provided in this prospectus and the prospectus supplement. We have not authorized anyone to provide you with different information. We are not making or soliciting an offer of these securities in any jurisdiction in which the offer or solicitation is not authorized or in which the person making the offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make the offer or solicitation. You should not assume that the information in this prospectus or the prospectus supplement is accurate as of any date other than the date as of which such information is given.

Table of Contents

California Water Service Group

We are a holding company and our business is carried on through five wholly-owned operating subsidiaries, each of which is a regulated public utility except where indicated below:

California Water Service Company;

Washington Water Service Company;

New Mexico Water Service Company;

Hawaii Water Service Company, Inc.; and

CWS Utility Services, a non-regulated operating subsidiary.

Our four regulated public utility subsidiaries' assets and operating revenues comprise substantially all of our consolidated assets and all of our utility revenues. Our primary business is the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. The majority of our assets consist of land, buildings, wells, tanks, pipes and equipment necessary for water operations.

The rates that our regulated subsidiaries charge water customers are subject to the jurisdiction of the regulatory commissions in the states in which we operate. These commissions set water rates for each operating district independently because the systems are not interconnected. The commissions authorize us to charge rates which they consider to be sufficient to recover normal operating expenses, to provide funds for adding new or replacing water infrastructure, and to allow us to earn what the commissions consider to be a fair and reasonable return on invested capital.

California Operations

California Water Service Company is the largest of our operating companies, representing 95% of our regulated customers and 95% of our consolidated operating revenue for the six months ended June 30, 2006. We supply water service to approximately 458,000 customers in 75 California communities through 26 separate water systems or districts.

Of the 26 water districts, 24 districts are regulated systems and are subject to regulation by the California Public Utilities Commission. The other two districts, the City of Hawthorne and the City of Commerce, are non-regulated because they are not subject to regulation by the California Public Utilities Commission. Rates for the systems in the City of Hawthorne and City of Commerce are established in accordance with negotiated operating agreements and are subject to ratification by the city councils in the City of Hawthorne and the City of Commerce.

Washington Operations

Our regulated water utility operations in Washington state are conducted by our subsidiary Washington Water Service Company and comprised 3% of our total customers and 2% of our consolidated operating revenue for the six months ended June 30, 2006. We provide domestic water service to approximately 15,300 customers in the Tacoma and Olympia areas.

New Mexico Operations

Our regulated water utility operations in New Mexico are conducted by our subsidiary New Mexico Water Service Company and accounted for 1% of our total customers and 1% of our consolidated operating revenues for the six months ended June 30, 2006. We provide service to approximately 6,700 water and wastewater customers in the Belen, Los Lunas and Elephant Butte areas of New Mexico.

Hawaii Operations

Our regulated water utility operations in Hawaii are conducted by our subsidiary Hawaii Water Service Company and accounted for less than 1% of our total customers and 1.2% of our consolidated operating revenues for the six months ended June 30, 2006. We provide water utility services to approximately 500 customers in Maui, including several large resorts and condominium complexes.

Non-Regulated Operations

In addition to the non-regulated services we provide for the City of Hawthorne and the City of Commerce described above, we also provide non-regulated water-related services under agreements with other municipalities and private

Table of Contents

companies. Our non-regulated services include full water system operations, leasing communication antenna sites, billing and meter-reading services, and real estate sales of non-utility properties.

Most of our non-regulated operations are conducted by our subsidiary CWS Utility Services, however, certain of our regulated subsidiaries also carry on some non-regulated operations.

Our non-regulated activities, excluding gains on sale of non-utility property, comprised 10% of our total net income for the six months ended June 30, 2006. We do not track the number of customers for these non-regulated operations, except for customers in the City of Hawthorne and the City of Commerce. Income and expenses from non-regulated operations are reported under Other income and expenses, net on our income statement.

Table of Contents

Risk Factors

Readers and prospective investors in our securities should carefully consider the following risk factors as well as the other information contained or incorporated by reference in this prospectus or any prospectus supplement.

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This prospectus is qualified in its entirety by these risk factors.

If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment.

Risks Related to Our Regulatory Environment

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

California Water Service Company, New Mexico Water Service Company, Washington Water Service Company and Hawaii Water Service Company, Inc., are regulated public utilities which provide water service to our customers. The rates that we charge our water customers are subject to the jurisdiction of the regulatory commissions in the states in which we operate. These commissions set water rates for each operating district independently because the systems are not interconnected. The commissions authorize us to charge rates which they consider to be sufficient to recover normal operating expenses, to provide funds for adding new or replacing water infrastructure, and to allow us to earn what the commissions consider to be a fair and reasonable return on invested capital.

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

We periodically file rate increase applications with the commissions. The ensuing administrative and hearing process may be lengthy and costly. The decisions of the commissions are beyond our control and we can provide no assurances that our rate increase requests will be granted by the commissions. Even if approved, there is no guarantee that approval will be given in a timely manner or at a sufficient level to cover our expenses and provide a reasonable return on our investment. If the rate increase decisions are delayed, our earnings may be adversely affected.

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

Regulatory decisions may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses and may overturn past decisions used in determining our revenues and expenses. Our management continually evaluates the anticipated recovery of regulatory assets, liabilities, and revenues subject to refund and provides for allowances and/or reserves as deemed necessary. Under Financial Accounting Standard SFAS No. 71 (Accounting for the Effects of Certain Types of Regulation), we can defer certain costs if we believe we will be allowed to recover those costs by future rate increases. If a commission determined that a portion of our assets were not recoverable in customer rates, we may suffer an asset impairment which would require a write down in such asset's valuation.

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

Table of Contents

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

If we determine that assets are no longer used or useful for utility operations, we may remove them from our rate base and subsequently sell those assets. If the commission disagrees with our characterization, we could be subjected to penalties. Furthermore, there is a risk that the commission could determine that appreciation in property value should be awarded to the ratepayers rather than our stockholders.

Changes in laws, rules and policies of regulatory agencies can significantly affect our business.

Regulatory agencies may change their rules and policies for various reasons, including as a result of changes in the local political environment. In some states, regulators are elected by popular vote or are appointed by elected officials, and the results of elections may change the rules and policies of an agency. As a result of the political process, long-established rules and policies of an agency can change dramatically. For example, in 2001 regulation regarding recovery of increases in electrical rates changed in California. For over 20 years prior to 2001, the California Public Utilities Commission allowed recovery of electric rate increases under its operating rules. However, in 2003, the California Public Utilities Commission reinstated its policy to allow utilities to adjust their rates for rate changes by the power companies. The original decision by the commission to change its policy, as well as its subsequent decision to reinstate that policy, affected our business.

We rely on policies and regulations promulgated by the various state commissions in order to recover capital expenditures, maintain favorable treatment on gains from the sale of real property, offset certain production and operating costs, recover the cost of debt, maintain an optimal equity structure without over-leveraging, and have financial and operational flexibility to engage in non-regulated operations. If any of the commissions with jurisdiction over us implement policies and regulations that do not allow us to accomplish some or all of the items listed above, our future operating results may be adversely affected.

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

We expect environmental regulation to increase, resulting in higher operating costs in the future.

Our water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations. These provisions establish criteria for drinking water and for discharges of water, wastewater and airborne substances. The Environmental Protection Agency promulgates numerous nationally applicable standards, including maximum contaminant levels (MCLs) for drinking water. We believe we are currently in compliance with all of the MCLs promulgated to date but we can give no assurance that we will continue to comply with all water quality requirements. If we violate any federal or state regulations or laws governing health and safety, we could be subject to substantial fines or otherwise sanctioned.

Environmental laws are complex and change frequently. They have tended to become more stringent over time. As new or stricter standards are introduced, they could increase our operating costs. For example, we have assigned a high priority to completing work necessary to comply with new Environmental Protection Agency requirements concerning security of water facilities, which actions have increased our costs. Although we would likely seek permission to recover these costs through rate increases, we can give no assurance that the commissions would approve rate increases to enable us to recover these additional compliance costs.

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

Table of Contents

We are party to a toxic contamination lawsuit which could result in our paying damages not covered by insurance.

In 1995, the State of California's Department of Toxic Substances Control (DTSC) named us 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. The DTSC contends that our responsibility stems from our operation of wells in the surrounding vicinity that caused the contamination plume to spread. While we are cooperating with the clean up, we deny any responsibility for the contamination or the resulting cleanup.

In December 2002, we were named along with other defendants in two lawsuits filed by DTSC for the cleanup of the plume. The suits assert that the defendants are jointly and severally liable for the estimated cleanup of \$8.7 million. The parties have undertaken settlement negotiations. If the parties finalize a written settlement agreement, it must then be approved by the court. In connection with these suits, our insurance carrier has filed a separate lawsuit against us for reimbursement of past defense costs which approximate \$1 million. We believe that the insurance carrier clearly has a duty to defend and is not entitled to any defense cost reimbursement. Furthermore, we believe that insurance coverage exists for this claim. Consequently, we have filed a number of pre-trial motions to dismiss the lawsuit. However, if our claim is ultimately found to be excludable under insurance policies, we may have to pay damages. We can give no assurance that we will be able to recover amounts paid for damages through rate increases.

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

Risks Related to Our Business Operations

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