Golden State Water CO
Form 10-K
March 01, 2013
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012
or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File Number	Registrant, State of Incorporation Address, Zip Code and Telephone Number	IRS Employer Identification No.
001-14431	**American States Water Company** (Incorporated in California) 630 E. Foothill Boulevard, San Dimas, CA 91773-1212 (909) 394-3600	95-4676679
001-12008	**Golden State Water Company** (Incorporated in California)	95-1243678

630 E. Foothill Boulevard, San Dimas, CA 91773-1212

(909) 394-3600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
American States Water Company Common Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

American States Water Company	Yes x No o
Golden State Water Company	Yes o No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

American States Water Company	Yes o No x
Golden State Water Company	Yes o No x

Indicate by check mark whether 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

American States Water Company	Yes x No o
Golden State Water Company	Yes x No o

Indicate by check mark whether 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 such shorter period that the Registrant was required to submit and post such files).

American States Water Company	Yes x No o
Golden State Water Company	Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

American States Water Company

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

Golden State Water Company

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x	Smaller reporting company o

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

American States Water Company	Yes o No x
Golden State Water Company	Yes o No x

The aggregate market value of the total voting common stock held by non-affiliates of American States Water Company was approximately $736,956,000 and $1,007,455,000 on June 30, 2012 and February 26, 2013, respectively. The closing price per Common Share on February 26, 2013, as quoted in the *The Wall Street Journal website*, was $52.30. As of February 26, 2013, the number of Common Shares of American States Water Company outstanding was 19,263,011. As of that same date, American States Water Company owned all 146 outstanding Common Shares of Golden State Water Company. The aggregate market value of the total voting stock held by non-affiliates of Golden State Water Company was zero on June 30, 2012 and February 26, 2013.

Golden State Water Company meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form, in part, with the reduced disclosure format for Golden State Water Company.

Documents Incorporated by Reference:

Portions of the Proxy Statement of American States Water Company will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 13 and 14 and portions of Item 12, in each case as specifically referenced herein.

Table of Contents

AMERICAN STATES WATER COMPANY
and

GOLDEN STATE WATER COMPANY

FORM 10-K

INDEX

Table of Contents

PART I

Item 1. Business

This annual report on Form 10-K is a combined report being filed by two separate Registrants: American States Water Company (hereinafter AWR), and Golden State Water Company (hereinafter GSWC). References in this report to Registrant are to AWR and GSWC, collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than GSWC.

AWR makes its periodic reports, Form 10-Q and Form 10-K, and current reports, Form 8-K, available free of charge through its website, www.aswater.com, as soon as material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). Such reports are also available on the SEC s internet website at http://www.sec.gov. AWR also makes available free of charge its code of business conduct and ethics, its corporate governance guidelines and the charters of its Board of Directors, Nominating and Governance Committee, Compensation Committee, and Audit and Finance Committee through its website or by calling (800) 999-4033. AWR and GSWC have filed the certification of officers required by Section 302 of the Sarbanes-Oxley Act as Exhibits 31.1 and 31.2 to its Form 10-K for the year ended December 31, 2012.

General

AWR is the parent company of GSWC and American States Utility Services, Inc. (ASUS) and its subsidiaries (Fort Bliss Water Services Company (FBWS), Terrapin Utility Services, Inc. (TUS), Old Dominion Utility Services, Inc. (ODUS), Palmetto State Utility Services, Inc. (PSUS) and Old North Utility Services, Inc. (ONUS)). AWR was incorporated as a California corporation in 1998 as a holding company. AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has two principal business units, water and electric service utility operations, conducted through GSWC, and contracted services conducted through ASUS and its subsidiaries. FBWS, TUS, ODUS, PSUS and ONUS may be referred to herein individually as a Military Utility Privatization Subsidiary or collectively as the Military Utility Privatization Subsidiaries.

GSWC is a California public utility company engaged principally in the purchase, production and distribution of water in 75 communities in 10 counties in the State of California. GSWC is regulated by the California Public Utilities Commission (CPUC). It was incorporated as a California corporation on December 31, 1929. GSWC also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County, California through its Bear Valley Electric Service (BVES) division.

GSWC served 255,657 water customers and 23,379 electric customers at December 31, 2012, or a total of 279,036 customers, compared with 255,935 water customers and 23,508 electric customers at December 31, 2011, or a total of 279,443 customers. GSWC s utility operations exhibit seasonal trends. Although GSWC s water utility operations have a diversified customer base, residential and commercial customers account for the majority of GSWC s water sales and revenues. Revenues derived from commercial and residential water customers accounted for approximately 90% of total water revenues for the years ended December 31, 2012, 2011 and 2010.

ASUS, through its wholly-owned subsidiaries, has contracted with the U.S. government to provide water and/or wastewater services at various military installations, including the operation, maintenance, renewal and replacement of the water and/or wastewater systems, pursuant to 50-year firm, fixed-price contracts. Each of the contracts with the U.S. government may be subject to termination, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of default or nonperformance by the subsidiary performing the contract. In either event, each Military Utility Privatization Subsidiary so impacted should be entitled to recover the remaining amount of its unrecovered capital investment pursuant to the terms of a termination settlement with the U.S. government at the time of termination as provided in the contract. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter under the terms of the contract. Prices are also subject to equitable adjustment based upon changes in circumstances, changes in laws and/or regulations and changes in wages and fringe benefits to the extent provided in the contract. AWR guarantees performance of ASUS military privatization contracts.

Table of Contents

Pursuant to the terms of these contracts, the Military Utility Privatization Subsidiaries operate, as of the effective date of their respective contracts, the following water and wastewater systems:

- FBWS - water and wastewater systems at Fort Bliss located near El Paso, Texas and extending into southeastern New Mexico effective October 1, 2004;
- TUS - water and wastewater systems at Andrews Air Force Base in Maryland effective February 1, 2006;
- ODUS - wastewater system at Fort Lee in Virginia effective February 23, 2006 and the water and wastewater systems at Fort Eustis and Fort Story in Virginia (TRADOC) effective April 3, 2006;
- PSUS - water and wastewater systems at Fort Jackson in South Carolina effective February 16, 2008; and
- ONUS - water and wastewater systems at Fort Bragg, Pope Army Airfield and Camp MacKall, North Carolina effective March 1, 2008.

Certain financial information for each of AWR s business segments - water distribution, electric distribution, and contracted services - is set forth in Note 16 to the Notes to Consolidated Financial Statements of American States Water Company and its subsidiaries. AWR s water and electric distribution segments are not dependent upon a single or only a few customers. The U.S. government is the primary customer for ASUS contracted services. ASUS may, from time to time, perform work for other prime contractors of the U.S. government.

The revenue from AWR s segments is seasonal. The impact of seasonality on these AWR businesses is discussed in more detail in Item 1A *Risk Factors.*

Environmental matters and compliance with such laws and regulations are discussed in detail in Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations* under the section titled Environmental Matters.

Competition

The businesses of GSWC are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies within their existing service territories. However, GSWC may be subject to eminent domain proceedings in which government agencies, under state law, may acquire GSWC s water systems if doing so is necessary and in the public s interest. GSWC competes with governmental agencies and other investor-owned utilities in connection with offering service to new real estate developments on the basis of financial terms, availability of water and ability to commence providing service on a timely basis. AWR s other subsidiary, ASUS, actively competes for business with other investor-owned utilities, other third party providers of water and/or wastewater services and governmental entities primarily on the basis of price and quality of service.

AWR Workforce

AWR and its subsidiaries had a total of 728 employees as of February 26, 2013. GSWC had 579 employees as of February 26, 2013. Nineteen positions in GSWC s Bear Valley Electric Service (BVES) customer service area are covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers, which expires in December 2013. Sixty-eight employees in GSWC s Region II are covered by a collective bargaining agreement with the Utility Workers Union of America, which expires in 2014. GSWC has no other unionized employees.

ASUS had 149 employees as of February 26, 2013. Twelve of the employees of a subsidiary of ASUS are covered by a collective bargaining agreement with the International Union of Operating Engineers which expires in September 2013.

Table of Contents

Forward-Looking Information

This Form 10-K and the documents incorporated herein contain forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current estimates, expectations and projections about future events and assumptions regarding these events and include statements regarding management s goals, beliefs, plans or current expectations, taking into account the information currently available to management. Forward-looking statements are not statements of historical facts. For example, when we use words such as anticipate, believe, plan, estimate, expect, intend, may and other words th uncertainty of future events or outcomes, we are making forward-looking statements. We are not able to predict all the factors that may affect future results. We caution you that any forward-looking statements made by us are not guarantees of future performance and those actual results may differ materially from those in our forward-looking statements. Some of the factors that could cause future results to differ materially from those expressed or implied by our forward-looking statements, or from historical results, include, but are not limited to:

- The outcome of pending and future regulatory, legislative or other proceedings, investigations or audits, including decisions in our general rate cases and the results of independent audits of our construction contracting procurement practices or other independent audits of our costs

- Changes in the policies and procedures of the California Public Utilities Commission (CPUC)

- Timeliness of CPUC action on rates

- Our ability to efficiently manage capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recovery of our costs through rates

- The impact of increasing opposition to GSWC rate increases on our ability to recover our costs through rates and on the size of our customer base

- Our ability to forecast the costs of maintaining GSWC s aging water and electric infrastructure

- Our ability to recover increases in permitting costs and in costs associated with negotiating and complying with the terms of our franchise agreements with cities and counties and other demands made upon us by the cities and counties in which GSWC operates

- Changes in accounting valuations and estimates, including changes resulting from changes in our assessment of anticipated recovery of regulatory assets, liabilities and revenues subject to refund or regulatory disallowances

- Changes in environmental laws and water and wastewater quality requirements and increases in costs associated with complying with these laws and requirements

- Availability of water supplies, which may be adversely affected by changes in weather patterns, contamination and court decisions or other governmental actions restricting use of water from the Colorado River, transportation of water to GSWC s service areas through the California State Water Project or pumping of groundwater

- Our ability to obtain adequate, reliable and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our water and wastewater operations

- Our ability to recover the costs associated with the contamination of GSWC s groundwater supplies from parties responsible for the contamination or through the ratemaking process and the time and expense incurred by us in obtaining recovery of such costs

- Adequacy of our power supplies for BVES and the extent to which we can manage and respond to the volatility of electric and natural gas prices

- Our ability to comply with the CPUC s renewable energy procurement requirements

- Changes in GSWC customer demand due to unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions, cost increases and conservation

- Changes in accounting treatment for regulated utilities

Table of Contents

- Changes in estimates used in ASUS s revenue recognition under the percentage of completion method of accounting for our construction activities at our contracted services business

- Termination, in whole or in part, of our contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default

- Delays in obtaining redetermination of prices or equitable adjustments to our prices on our contracts to provide water and/or wastewater services at military bases

- Disallowance of costs on our contracts to provide water and/or wastewater services at military bases as a result of audits, cost review or investigations by contracting agencies

- Inaccurate assumptions used in preparing bids in our contracted services business

- Failure of the collection or sewage systems that we operate on military bases resulting in untreated wastewater or contaminants spilling into nearby properties, streams or rivers

- Failure to comply with the terms of our military privatization contracts

- Failure of any of our subcontractors to perform services for us in accordance with the terms of our military privatization contracts

- Implementation, maintenance and upgrading of our information technology systems

- General economic conditions which may impact our ability to recover infrastructure investments and operating costs from customers

- Explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and telecommunication systems, human error and similar events that may occur while operating and maintaining water and electric systems in California or operating and maintaining water and wastewater systems on military bases under varying geographic conditions

- The impact of storms, earthquakes, floods, mudslides, drought, wildfires, disease and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand or that damage or disrupt facilities, operations or information technology systems owned by us, our customers or third parties on whom we rely

- Potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber attack or other cyber incident

- Restrictive covenants in our debt instruments or changes to our credit ratings on current or future debt that may increase our financing costs or affect our ability to borrow or make payments on our debt

- Our ability to access capital markets and other sources of credit in a timely manner on acceptable terms

Please consider our forward-looking statements in light of those risks as you read this Form 10-K. We qualify all of our forward-looking statement by these cautionary statements.

Table of Contents

Item 1A Risk Factors

You should carefully read the risks described below and other information in this Form 10-K in order to understand certain of the risks of our business.

Our business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our business

Our revenues depend substantially on the rates and fees we charge our customers and the ability to recover our costs on a timely basis, including the ability to recover the costs of purchased water, groundwater assessments, electric power, natural gas, chemicals, water treatment, security at water facilities and preventative maintenance and emergency repairs. Any delays by the CPUC in granting rate relief to cover increased operating and capital costs at our public utilities or delays in obtaining approval of our requests for equitable adjustments or price redeterminations for contracted services from the U.S. government may adversely affect our financial performance. We may file for interim rates in California in situations where there may be delays in granting final rate relief during a general rate case proceeding. If the CPUC approves lower rates, the CPUC will require us to refund to customers the difference between the interim rates and the rates approved by the CPUC. Similarly, if the CPUC approves rates that are higher than the interim rates, the CPUC may authorize us to recover the difference between the interim rates and the final rates. Interim rates may also be filed with the U.S. government, should there be delays in the price redetermination process.

Regulatory decisions may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses, may overturn past decisions used in determining our revenues and expenses and could result in impairment charges and customer refunds. 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. In the event that our assessment of the probability of recovery through the ratemaking process is incorrect, we will adjust the associated regulatory asset or liability 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 costs could have a material adverse effect on our financial results.

We are also, in some cases, required to estimate future expenses and in others, we are required to incur the expense before recovering costs. As a result, our revenues and earnings may fluctuate depending on the accuracy of our estimates, the timing of our investments or expenses or other factors. If expenses increase significantly over a short period of time, we may experience delays in recovery of these expenses, the inability to recover carrying costs for these expenses and increased risks of regulatory disallowances or write-offs.

Regulatory agencies may also change their rules and policies which may adversely affect our profitability and cash flows. Changes in policies of the U.S. government may also adversely affect our military base contract operations. In certain circumstances, the U.S. government may be unwilling or unable to appropriate funds to pay costs mandated by changes in rules and policies of federal or state regulatory agencies. The U.S. government may disagree with the increases that we request and may delay approval of requests for equitable adjustment or redetermination of prices which could adversely affect our anticipated rates of return.

We may also be subject to fines or penalties if a regulatory agency determines that we have failed to comply with laws, regulations or orders applicable to our businesses, unless we appeal this determination, or our appeal of an adverse determination is denied. Regulatory agencies may also disallow certain costs if audit findings determine that we have failed to comply with our policies and procedures for procurement or other practices.

Our costs involved in maintaining water quality and complying with environmental regulation have increased and are expected to continue to increase

Our capital and operating costs at GSWC can increase substantially as a result of increases in environmental regulation arising from increases in the cost of disposing of residuals from our water treatment plants, upgrading and building new water treatment plants, monitoring compliance activities and securing alternative supplies when necessary. GSWC may be able to recover these costs through the ratemaking process. We may also be able to recover these costs under settlement and contractual arrangements. In certain circumstances, costs may be recoverable from parties responsible or potentially responsible for contamination, either voluntarily or through specific court action.

Table of Contents

We may also incur significant costs in connection with seeking to recover costs due to contamination of water supplies. Our ability to recover these types of costs also depends upon a variety of factors, including approval of rate increases, the willingness of potentially responsible parties to settle litigation and otherwise address the contamination and the extent and magnitude of the contamination. We can give no assurance regarding the adequacy of any such recovery to offset the costs associated with the contamination or the cost of recovery of any legal costs.

We may sustain losses that exceed or are excluded from our insurance coverage or for which we are not insured

We are, from time to time, parties to legal or regulatory proceedings. These proceedings may pertain to regulatory investigations, employment matters or other disputes. Management periodically reviews its assessment of the probable outcome of these proceedings, the costs and expenses reasonably expected to be incurred, and the availability and extent of insurance coverage. On the basis of this review, management establishes reserves for such matters. We may, however, from time to time be required to pay fines, penalties or damages that exceed our insurance coverage and/or reserves if our estimate of the probable outcome of such proceedings proves to be inaccurate.

We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities. However, our insurance policies contain exclusions and other limitations that may not cover our potential liabilities. Generally, our insurance policies cover property, worker s compensation, employer s liability, general liability and automobile liability. Each policy includes deductibles or self-insured retentions and policy limits for covered claims. As a result, we may sustain losses that exceed or that are excluded from our insurance coverage or for which we are not insured.

Additional Risks Associated with our Public Utility Operations

Our operating costs may increase as a result of groundwater contamination

Our operations can be impacted by groundwater contamination in certain service territories. Historically, we have taken a number of steps to address contamination, including the removal of wells from service, decreasing the amount of groundwater pumped from wells in order to slow the movement of plumes of contaminated water, constructing water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination. In emergency situations, we have supplied our customers with bottled water until the emergency situation has been resolved.

In some cases, persons responsible for causing the contamination of groundwater supplies have paid for mitigation actions. In other cases, we recover our costs in rates. To date, the CPUC has permitted us to establish memorandum accounts for potential recovery of these types of costs when they arise.

Management believes that rate recovery, proper insurance coverage and reserves are in place to appropriately manage these types of contamination issues. However, such issues, if ultimately resolved unfavorably to us, could, in the aggregate, have a material adverse effect on our results of operations and financial condition.

The adequacy of our water supplies depends upon a variety of uncontrollable factors

The adequacy of our water supplies varies from year to year depending upon a variety of factors, including:

- Rainfall, runoff, flood control and availability of reservoir storage;
- Availability of Colorado River water and imported water from northern California;
- The amount of useable water stored in reservoirs and groundwater basins;
- The amount of water used by our customers and others;
- Water quality;
- Legal limitations on production, diversion, storage, conveyance and use; and
- Climate change.

Population growth and increases in the amount of water used in California have caused increased stress on surface water supplies and groundwater basins. In addition, court-ordered pumping restrictions on water obtained from the Sacramento-San Joaquin Delta may decrease the amount of water Metropolitan Water District of Southern California, or MWD, is able to import from northern California. We have implemented tiered rates and other practices in order to encourage water conservation. We are also acting to secure additional supplies from desalination and water transfers. However, we cannot predict to what extent these efforts to reduce stress on our water supplies will be successful or sustainable.

Table of Contents

Water shortages at GSWC may:

- adversely affect our supply mix, for instance, causing increased reliance upon more expensive water sources;
- adversely affect our operating costs, for instance, by increasing the cost of producing water from more highly contaminated aquifers;
- result in an increase in our capital expenditures, for example by requiring the construction of pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers, and reservoirs and other facilities to conserve or reclaim water; and
- adversely affect the volume of water sold as a result of mandatory or voluntary conservation efforts by customers.

We may be able to recover increased operating and capital costs through the ratemaking process. GSWC has implemented a modified supply cost balancing account to track and recover costs from supply mix changes and rate changes by wholesale suppliers, as authorized by the CPUC. We may also recover costs from certain third parties that may be responsible, or potentially responsible, for groundwater contamination.

Our liquidity may be adversely affected by changes in water supply costs

We obtain our water supplies for GSWC from a variety of sources. For example, water is pumped from aquifers within our service areas to meet a portion of the demands of our customers. When water produced from wells in those areas is insufficient to meet customer demand or when such production is interrupted, we have purchased water from other suppliers. As a result, our cost of providing, distributing and treating water for our customers use can vary significantly. Furthermore, imported water wholesalers, such as MWD may not always have an adequate supply of water to sell to us.

Our liquidity and earnings may be adversely affected by increases in maintenance costs due to our aging infrastructure

Some of our systems in California are more than 50 years old. We have experienced leaks and water quality and mechanical problems in some of these older systems. In addition, well and pump maintenance expenses are affected by labor and material costs and more stringent water discharge requirements. Although our maintenance costs for 2012 decreased as compared to 2011, these costs can increase substantially and unexpectedly.

We include estimated increases in maintenance costs for future years in each general rate case filed by GSWC for possible recovery. We may not recover overages from those estimates in rates.

Our liquidity and earnings may be adversely affected by our conservation efforts

Conservation by all customer classes at GSWC is a top priority. However, customer conservation can result in lower volumes of water sold. We may experience a decline in per residential customer water usage due to the use of more efficient household fixtures and appliances by residential consumers, and perhaps, efforts by our customers to reduce costs.

Our water utility business is heavily dependent upon revenue generated from rates charged to our residential customers for the volume of water used. The rates we charge for water are regulated by the CPUC and may not be adequately adjusted to reflect changes in demand. Declining usage also negatively impacts our long-term operating revenues if we are unable to secure rate increases or if growth in the residential customer base does not occur to the extent necessary to offset the per customer residential usage decline.

We implemented a CPUC-approved water revenue adjustment mechanism at GSWC which has the effect of reducing the adverse impact of our customers conservation efforts on revenues. However, cash flows from operations can be significantly affected as much of the revenues we recognize in these accounts are collected from customers primarily through surcharges over a twelve to eighteen month period.

Our earnings may be affected, to some extent, by weather during different seasons

The demand for water and electricity varies by season. For instance, there can be a higher level of water consumption during the third quarter of each year when weather in California tends to be hot and dry. During unusually wet

Table of Contents

weather, our customers generally use less water. GSWC has implemented a CPUC-approved water revenue adjustment mechanism, which helps mitigate fluctuations in revenues and earnings due to changes in water consumption by our customers in California.

The demand for electricity in our electric customer service area is greatly affected by winter snows. An increase in winter snows reduces the use of snowmaking machines at ski resorts in the Big Bear area and, as a result, reduces our electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snowmaking conditions, which also reduces our electric revenues. GSWC has implemented a CPUC-approved base revenue requirement adjustment mechanism for our electric business which helps mitigate fluctuations in the revenues and earnings of our electric business due to changes in the amount of electricity used by GSWC s electric customers.

Our liquidity may be adversely affected by increases in electricity and natural gas prices in California

We purchase most of the electric energy sold to customers in our electric customer service area from others under purchased power contracts. In addition to purchased power contracts, we purchase additional energy from the spot market to meet peak demand. We may sell surplus power to the spot market during times of reduced energy demand. As a result, our cash flow may be affected by the increases in spot market prices of electricity purchased and decreases in spot market prices for electricity sold. However, GSWC has implemented supply cost balancing accounts, as approved by the CPUC, to alleviate any fluctuation to earnings. We also operate a natural gas-fueled 8.4 megawatt generator in our electric service area.

Unexpected generator downtime or a failure to perform by any of the counterparties to our electric and natural gas purchase contracts could further increase our exposure to fluctuating natural gas and electric prices.

Changes in electricity prices also affect the unrealized gains and losses on our block forward purchased power contracts that qualify as derivative instruments as we adjust the asset or liability on these contracts to reflect the fair market value of the contracts at the end of each month. The CPUC has authorized us to establish a memorandum account to track the changes in the fair market value of our purchased power contracts. As a result, unrealized gains and losses on these purchased power contracts do not impact earnings.

We may not be able to procure sufficient renewable energy resources to comply with CPUC rules

We are required to procure a portion of our electricity from renewable energy resources to meet the CPUC s renewable procurement requirements. We have an agreement, subject to CPUC approval, with a third party to purchase renewable energy credits which we believe should allow us to meet these requirements through 2023. In the event that the CPUC does not approve this agreement, or the third party fails to perform in accordance with the terms of the agreement, we may not be able to obtain sufficient resources to meet the renewable procurement requirements by the end of the first compliance period in December 31, 2013. We may be subject to fines and penalties by the CPUC if the CPUC determines that we are not in compliance with the renewable resource procurement rules.

Our assets are subject to condemnation

Municipalities and other government subdivisions may, in certain circumstances, seek to acquire certain of our assets through eminent domain proceedings. It is generally our practice to contest these proceedings which may be costly and may divert the attention of management from the operation of our business. If a municipality or other government subdivision succeeds in acquiring our assets, there is a risk that we will not receive adequate compensation for the assets acquired or be able to recover all charges associated with the divestiture of these assets.

Our costs of obtaining and complying with the terms of franchise agreements are increasing

Cities and counties in which GSWC operates have granted GSWC a franchise to construct, maintain and use pipes and appurtenances in public streets and rights of way. The costs of obtaining, renewing and complying with the terms of these franchise agreements have been increasing as cities and counties attempt to regulate GSWC s operations within the boundaries of the city or unincorporated area of the counties in which GSWC operates. Cities and counties have also been attempting to impose new fees on GSWC s operations, including pipeline abandonment fees and road cut or other types of capital improvement fees. At the same time, there is increasing opposition from consumer groups to rate increases that may be necessary to compensate GSWC for the increased costs of local government regulation. These trends may adversely affect GSWC s ability to recover its costs of providing water service in rates and to efficiently manage capital expenditures and operating and maintenance expenses within CPUC authorized levels.

Table of Contents

Additional Risks Associated with our Contracted Services

We derive revenues from contract operations primarily from the operation and maintenance of water and/or wastewater systems at military bases and the construction of water and wastewater infrastructure on these bases (including renewal and replacement of these systems). As a result, these operations are subject to risks that are different than those of our public utility operations.

Our 50-year contracts for servicing military bases create certain risks that are different from our public utility operations

We have entered into contracts to provide water and/or wastewater services at military bases pursuant to 50-year contracts, subject to termination, in whole or in part, for the convenience of the U.S. government. In addition, the U.S. government may stop work under the terms of the contracts, delay performance of our obligations under the contracts or modify the contracts at its convenience.

Our contract pricing was based on a number of assumptions, including assumptions about prices and availability of labor, equipment and materials. We may be unable to recover all costs if any of these assumptions are inaccurate or if all costs that we may incur in connection with performing the work were not considered. Our contracts are also subject to periodic price adjustments at the time of price redetermination or in connection with requests for equitable adjustment or other changes permitted by the terms of the contracts. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter to the extent provided in each of the contracts. Prices are also subject to equitable adjustment based upon changes in circumstances, laws or regulations and service requirement changes with respect to wages and fringe benefits to the extent provided in each of the contracts.

We are required to record all costs under these types of contracts as they are incurred. As a result, we may record losses associated with unanticipated conditions, higher than anticipated infrastructure levels and emergency work at the time such expenses occur. We recognize additional revenue for such work as, and to the extent that, our price redeterminations and/or requests for equitable adjustments are approved. Delays in obtaining approval of price redeterminations and/or equitable adjustments can negatively impact our results of operations and cash flows.

We are subject to audits, cost review and investigations by contracting oversight agencies. Certain audit findings such as system deficiencies for government contract reporting requirements may result in delays in price redetermination filings. During the course of an audit, the oversight agency may disallow costs.

Certain payments under these contracts are subject to appropriations by Congress. We may experience delays in receiving payment or delays in redetermination of prices or other price adjustments due to cancelled or delayed appropriations specific to our projects or reductions in government spending for the military generally or military base operations specifically. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures for the military generally or military base operations specifically.

In August 2011, Congress enacted the Budget Control Act which committed the U.S. government to significantly reducing the federal deficit over ten years. The Budget Control Act called for very substantial automatic spending cuts, known as sequestration . We do not believe there would be any immediate earnings impact to our existing operations and maintenance and renewal and replacement services provided by ASUS. Such contracts are not subject to the provisions of the Budget Control Act. Any impact will likely be limited to the timing of funding for these services, a possible delay in the timing of payments, potential delays in the processing of price redeterminations and issuance of contract modifications for new construction work not already funded by the U.S. government, and/or delays in the solicitation and/or awarding of new utility privatization opportunities.

Management also reviews goodwill for impairment at least annually. ASUS has $1.1 million of goodwill which may be at risk for potential impairment if requested price redeterminations and/or equitable adjustments are not granted.

Risks associated with the collection of wastewater are different, in some respects, from that of our water distribution operations

The wastewater collection system operations of our subsidiaries providing wastewater services on military bases are subject to substantial regulation and involve significant environmental risks. If collection or sewage systems fail, overflow or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, the cost of addressing which may not be recoverable. This risk is most acute during periods of substantial rainfall or flooding, which are common causes of sewer overflows and system failures. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. In the event that we are deemed liable for any damage caused by overflow, our losses might not be covered by insurance policies or we may find it difficult to secure insurance for this business in the future at acceptable rates.

Table of Contents

Our contracts for the construction of infrastructure improvements on military bases create risks that are different, in some respects, from that of our operations and maintenance activities

We have entered into contract modifications with the U.S. government (and in some cases agreements with third parties) for the construction of new water and/or wastewater infrastructure at the military bases. Most of these contracts are firm fixed-price contracts. Under firm fixed-price contracts, we will benefit from cost savings, but are generally unable to recover any cost overruns to the approved contract price. Under most circumstances, the U.S. government has approved increased cost change orders due to change in scope of work performed.

We recognize revenues from these types of contracts using the percentage-of-completion method of accounting. This accounting practice results in our recognizing contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs or the physical completion of the construction projects. The earnings or losses recognized on individual contracts are based on periodic estimates of contract revenues, costs and profitability as the construction projects progress.

We establish prices for these types of firm fixed-price contracts and the overall 50-year contracts taken as a whole, based, in part, on cost estimates that are subject to a number of assumptions, including assumptions regarding future economic conditions. If these estimates prove inaccurate or circumstances change, cost overruns could have a material adverse effect on our contracted business operations and results of operations.

We may be adversely affected by disputes with the U.S. government regarding our performance of contract services on military bases

If there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows could be adversely affected.

If we fail to comply with the terms of one or more of our U.S. government contracts, other agreements with the U.S. government or U.S. government regulations and statutes, we could be suspended or barred from future U.S. government contracts for a period of time and be subject to possible damages, fines and penalties and damage to our reputation in the water and wastewater industry.

We depend, to some extent, upon subcontractors to assist us in the performance of contracted services on military bases

We rely, to some extent, on subcontractors to assist us in the operation and maintenance of the water and wastewater systems at military bases. The failure of any of these subcontractors to perform services for us in accordance with the terms of our contracts with the U.S. government could result in the termination of our contract to provide water and/or wastewater services at the affected base(s), a loss of revenues or increases in costs to correct a subcontractor s performance failures. We are able to mitigate these risks, in part, by obtaining and requiring our subcontractors to obtain performance bonds.

We are also required to make a good faith effort to achieve our small business subcontracting plan goals pursuant to U.S. government regulation. If we fail to use good faith efforts to meet these goals, the U.S. government may assess damages against us at the end of the contract or, for most contracts, at the end of each price redetermination period. The U.S. government has the right to offset claimed damages against any amounts owed to us.

We also rely on third-party manufacturers as well as third-party subcontractors to complete our construction projects. To the extent that we cannot engage subcontractors or acquire equipment or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount of costs we incur for these projects exceeds the amount we have estimated in our bid, we could experience reduced profits or losses in the performance of these contracts. In addition, if a subcontractor or manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms for any reason, including the deterioration of its financial condition, we may be required to purchase the services, equipment or materials from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the services, equipment or materials were needed.

If these subcontractors fail to perform services to be provided to us or fail to provide us with the proper equipment or materials, we may be penalized for their failure to perform; however, our contracts with these subcontractors include

Table of Contents

certain protective provisions, which may include the assessment of liquidated damages. We mitigate these risks by requiring many of our subcontractors to obtain performance bonds and to compensate us for any penalties we may be required to pay as a result of their failure to perform.

Our earnings may be affected, to some extent, by weather during different seasons

Seasonal weather conditions, such as hurricanes or significant winter storms, occasionally cause temporary office closures and/or result in temporary halts to construction activity at military bases. To the extent that our construction activities are impeded by these events, we will experience a delay in recognizing revenues from these construction projects.

We continue to incur costs associated with the expansion of our contract activities

We continue to incur additional costs in connection with the attempted expansion of our contract operations associated with the preparation of bids for new contracts for contract operations on prospective and existing military bases. Our ability to recover these costs and to earn a profit on our contract operations will depend upon the extent to which we are successful in obtaining new contracts and recovering these costs and other costs from new contract revenues.

Other Risks

Our business requires significant capital expenditures

The utility business is capital intensive. On an annual basis, we spend significant sums of money for additions to, or replacement of, our property, plant and equipment at our water and electric utilities. We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which are repaid over a period of time at no interest). We also periodically borrow money or issue equity for these purposes. In addition, we have a syndicated bank credit facility that is partially used for these purposes. We cannot provide assurance that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return.

Our subsidiaries providing water and wastewater services on military bases also expect to incur significant capital expenditures. To the extent that the U.S. government does not reimburse us for these expenditures as the work is performed or completed, the U.S. government will repay us over time. However, as previously discussed, if there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows will be adversely affected.

We may be adversely impacted by economic conditions

Access to external financing on reasonable terms depends, in part, on conditions in the debt and equity markets. When business and market conditions deteriorate, we may no longer have access to the capital markets on reasonable terms. Our ability to obtain funds is dependent upon our ability to access the capital markets by issuing debt or equity to third parties or obtaining funds from our revolving credit facility, which expires in May 2013. In the event of financial turmoil affecting the banking system and financial markets, consolidation of the financial services industry, significant financial service institution failures or our inability to renew or replace our existing revolving credit facility on attractive terms, it may become necessary for us to seek funds from other sources on less attractive terms.

The performance of the capital markets also affects the values of the assets that are held in trust to satisfy significant future obligations under our pension and postretirement benefit plans. These assets are subject to market fluctuations, which may cause investment returns to fall below our projected rates of return. A decline in the market value of the pension and postretirement benefit plan assets will increase the funding requirements under our pension and postretirement benefit plans if future returns on these assets are insufficient to offset the decline in value. Future increases in pension and other postretirement costs as a result of the reduced value of plan assets may not be fully recoverable in rates, and our results of operations and financial position could be negatively affected.

Payment of our debt may be accelerated if we fail to comply with restrictive covenants in our debt agreements

Our failure to comply with restrictive covenants in our debt agreements could result in an event of default. If the default is not cured or waived, we may be required to repay or refinance this debt before it becomes due. Even if we are able to obtain waivers from our creditors, we may only be able to do so on unfavorable terms.

Table of Contents

We (AWR) are a holding company that depends on cash flow from our subsidiaries to meet our financial obligations and to pay dividends on our common shares

As a holding company, our subsidiaries conduct substantially all operations and our only significant assets are investments in our subsidiaries. This means that we are dependent on distributions of funds from our subsidiaries to meet our debt service obligations and to pay dividends on our common shares.

Our subsidiaries are separate and distinct legal entities and generally have no obligation to pay any amounts due on our debt. Our subsidiaries only pay dividends if and when declared by the subsidiary board. Moreover, GSWC is obligated to give first priority to its own capital requirements and to maintain a capital structure consistent with that determined to be reasonable by the CPUC in its most recent decision on capital structure, in order that customers not be adversely affected by the holding company structure. Furthermore, our right to receive cash or other assets in the unlikely event of liquidation or reorganization of any of our subsidiaries is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from a subsidiary in a timely manner, we may be unable to meet our financial obligations, make additional investments or pay dividends.

We must successfully maintain and/or upgrade our information technology systems as we are increasingly dependent on the continuous and reliable operation of these systems

We rely on various information technology systems to manage our operations. Such systems require periodic modifications, upgrades and or replacement which subject us to inherent costs and risks including potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, retention of sufficiently skilled personnel to implement and operate the new systems, and other risks and costs of delays or difficulties in transitioning to new systems or of integrating new systems into our current systems. In addition, the difficulties with implementing new technology systems may cause disruptions in our business operations and have an adverse effect on our business and operations, if not anticipated and appropriately mitigated.

We rely on our computer, information and communications technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. Our computer and communications systems and operations could be damaged or interrupted by natural disasters, telecommunications, failures or acts of war or terrorism or similar events or disruptions. Any of these or other events could cause system interruption, delays and loss of critical data or delay or prevent operations and adversely affect our financial results.

There have been an increasing number of cyber-attacks on companies around the world, which have caused operational failures or compromised sensitive corporate or customer data. These attacks have occurred over the internet, through malware, viruses or attachments to e-mails or through persons inside the organization or with access to systems inside the organization. We have implemented security measures and will continue to devote significant resources to address any security vulnerabilities in an effort to prevent cyber-attacks. Despite our efforts, we cannot be assured that a cyber-attack will not cause water, wastewater or electric system problems, disrupt service to our customers, compromise important data or systems or result in unintended release of customer information. Moreover, if a computer security breach affects our systems or results in the unauthorized release of sensitive data, our reputation could be materially damaged. We would also be exposed to a risk of loss or litigation and possible liability.

Our operations are geographically concentrated in California

Although we operate water and wastewater facilities in a number of states, our operations are concentrated in California, particularly southern California. As a result, our financial results are largely subject to political, water supply, labor, utility cost and regulatory risks, economic conditions and other economic risks affecting California. California is, among other things, raising taxes in order to help balance the state budget and jobs may be lost to other states which are perceived as having a more business friendly climate.

Table of Contents

We operate in areas subject to natural disasters or that may be the target of terrorist activities

We operate in areas that are prone to earthquakes, fires, mudslides, hurricanes, tornadoes and other natural disasters. While we maintain insurance policies to help reduce our financial exposure, a significant seismic event in southern California, where our operations are concentrated, or other natural disasters could adversely impact our ability to deliver water and electricity or provide wastewater service and adversely affect our costs of operations. The CPUC has historically allowed utilities to establish a catastrophic event memorandum account to recover these costs for our public utility operations.

Terrorists could seek to disrupt service to our customers by targeting our assets. We have invested in additional security for facilities throughout our regulated service areas to mitigate the risks of terrorist activities. We also may be prevented from providing water and/or wastewater services at the military bases we serve in times of military crisis affecting these bases.

Item 1B Unresolved Staff Comments

None.

Table of Contents

Item 2 - Properties

Water Properties

As of December 31, 2012, GSWC s physical properties consisted of water transmission and distribution systems which included 2,786 miles of pipeline together with services, meters and fire hydrants and approximately 425 parcels of land, generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including three surface water treatment plants. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using pipes and appurtenances for transmitting and distributing water.

As of December 31, 2012, GSWC owned 244 wells, of which 188 are active operable wells equipped with pumps with an aggregate production capacity of approximately 202.7 million gallons per day. GSWC has 63 connections to the water distribution facilities of the MWD, and other municipal water agencies. GSWC s storage reservoirs and tanks have an aggregate capacity of approximately 111 million gallons. GSWC owns no dams. The following table provides, in greater detail, information regarding the water utility plant of GSWC:

Pumps		Distribution Facilities			Reservoirs	
Well	**Booster**	**Mains***	**Services**	**Hydrants**	**Tanks**	**Capacity***
244	378	2,786	255,818	23,296	144	110,520**(1)**

* Reservoir capacity is measured in thousands of gallons. Mains are in miles.

(1) GSWC has additional treatment capacity in its Bay Point system, through an exclusive capacity right to use 4.4 million gallons from a treatment plant owned by Contra Costa Water District. GSWC also has additional reservoir capacity in its Claremont system, through an exclusive right to use all of one 8 million gallon reservoir, one-half of another 8 million gallon reservoir, and one-half of a treatment plant s capacity, all owned by Three Valleys Municipal Water District.

Electric Properties

GSWC s electric properties are located in the Big Bear area of San Bernardino County, California. As of December 31, 2012, GSWC owned and operated 29.6 miles of overhead 34.5 kilovolt (kv) transmission lines, 1.4 mile of underground 34.5 kv transmission lines, 179.6 miles of 4.16 kv or 2.4 kv distribution lines, 53.2 miles of underground cable, 13 sub-stations and a natural gas-fueled 8.4 MW peaking generation facility. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using poles, wires and other appurtenances for transmitting electricity.

Adjudicated and Other Water Rights

GSWC owns groundwater and surface water rights in California. Groundwater rights are further subject to classification as either adjudicated or unadjudicated rights. Adjudicated rights have been subjected to comprehensive litigation in the courts, are typically quantified and are actively managed for optimization and sustainability of the resource. Surface water rights are quantified and managed by the State Water Resources Control Board, unless they originated prior to 1914, in which case they resemble unadjudicated groundwater rights. As of December 31, 2012, GSWC had adjudicated groundwater water rights and surface water rights of 76,022 and 11,335 acre feet per year, respectively. GSWC also has a number of unadjudicated groundwater rights, which have not been quantified and are not subject to predetermined limitations, but are typically measured by maximum historical usage.

Office Buildings

Registrant s general headquarters are housed in two office buildings located in San Dimas, California, one of which GSWC owns. GSWC also owns and/or leases certain facilities that house regional, district and customer service offices. ASUS leases office facilities in California, Georgia and Virginia. TUS and PSUS rent temporary service center facilities in Maryland and South Carolina, respectively. FBWS has a ten-year, renewable, no cost license for use of space in a U.S. government building at Fort Bliss as a service center. ODUS and ONUS own service centers in Virginia and North Carolina, respectively, and ONUS also rents temporary support facilities.

Table of Contents

Mortgage and Other Liens

As of December 31, 2012, GSWC had no mortgage debt outstanding or liens securing indebtedness.

As of December 31, 2012, neither AWR nor ASUS or any of its subsidiaries had any mortgage debt or liens securing indebtedness, outstanding.

Under the terms of certain debt of AWR and GSWC, AWR and GSWC are prohibited from issuing any secured debt, without providing equal and ratable security to the holders of this existing debt.

Condemnation of Properties

The laws of the State of California provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation, where doing so is necessary and in the public interest. In addition, these laws provide: (i) that the owner of utility property may contest whether the condemnation is actually necessary and in the public interest, and (ii) that the owner is entitled to receive the fair market value of its property if the property is ultimately taken.

The City of Claremont (Claremont) located in GSWC s Region III, has expressed various concerns to GSWC about rates charged by GSWC and the effectiveness of the CPUC s rate-setting procedures. In January 2012, the Claremont City Council members directed staff to pursue analysis required for potential acquisition of the water system and allocated funds from its general reserve for such analysis. In November 2012, Claremont made an offer to acquire GSWC s water system servicing Claremont. GSWC rejected the offer and clarified that the system is not for sale. Claremont and GSWC have however, agreed to hold meetings to further discuss alternatives, rates and other concerns of the City. GSWC serves approximately 11,000 customers in Claremont.

In April 2011, an organization called Ojai FLOW (Friends of Locally Owned Water) started a local campaign for the Casitas Municipal Water District to purchase GSWC s Ojai water system. The Ojai City Council passed a resolution supporting the efforts of Ojai FLOW at their regular meeting in April 2011. In July 2012, the Casitas Municipal Water District (CMWD) hired a financial consultant to provide consulting services to the District for the establishment of a Community Facilities District (CFD) and the issuance of bonds within the CFD to provide funding for the potential acquisition of GSWC s Ojai system. In January 2013, the CMWD passed resolutions to: (i) approve Local Goals and Policies for Use of Mello-Roos Community Facilities District Act of 1982, and (ii) make a Declaration of Intention to Establish Community Facilities District No. 2013-1 (Ojai) and to Authorize the Levy of Special Taxes Therein. With this action, CMWD will be allowed to hold a public hearing, and at the close of the hearing, establish the CFD. The public hearing is expected in March 2013. GSWC serves approximately 3,000 customers in Ojai.

Except for the City of Claremont and the City of Ojai, Registrant is currently not involved in activities related to the potential condemnation of any of its water customer service areas or in its BVES customer service area. No formal condemnation proceedings have been filed against any of the Registrant s service areas during the past three years.

Table of Contents

Item 3 - Legal Proceedings

***Water Quality-Related Litigation*:**

Perchlorate and/or Volatile Organic Compounds (VOC) have been detected in certain wells servicing GSWC s South San Gabriel System. GSWC filed suit in federal court, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority, together known as the Water Entities , against some of those allegedly Potentially Responsible Parties (PRP). In August 2003, the US Environmental Protection Agency (EPA) issued Unilateral Administrative Orders (UAO) against 41 PRPs for polluting the groundwater in portions of the San Gabriel Valley from which GSWC wells draw water. The UAO requires these parties to remediate the contamination.

In October 2004, the judge in the lawsuit stayed the matter in order to allow the parties to explore settlement and appointed a special master to oversee mandatory settlement discussions between the PRPs and the Water Entities. The Water Entities have now successfully reached settlement with all the PRPs. Legal proceedings are currently in progress to enter the settlements and resolve the claims.

***Santa Maria Groundwater Basin Adjudication*:**

In 1997, the Santa Maria Valley Water Conservation District (plaintiff) filed a lawsuit against multiple defendants, including GSWC, the City of Santa Maria, and several other public water purveyors. The plaintiff s lawsuit sought an adjudication of the Santa Maria Groundwater Basin (the Basin). A stipulated settlement of the lawsuit has been reached, subject to CPUC approval. The settlement, among other things, if approved by the CPUC, would preserve GSWC s historical pumping rights and secure supplemental water rights for use in case of drought or other reductions in the natural yield of the Basin. GSWC, under the stipulation, has a right to 10,000 acre-feet of groundwater replenishment provided by the Twitchell Project, a storage and flood control reservoir project operated by the plaintiff. A monitoring and annual reporting program has been established to allow the parties to responsibly manage the Basin and to respond to shortage conditions. If severe water shortage conditions are found over a period of five years, the management area engineer will make findings and recommendations to alleviate such shortages. If the Basin experiences severe shortage conditions, the court has the authority to limit GSWC s groundwater production to 10,248 acre-feet per year, based on developed water in the Basin. Over the last five years, GSWC s average groundwater production has been 10,140 acre-feet per year.

In February 2008, the court issued its final judgment, which approved and incorporated the stipulation. The judgment awarded GSWC prescriptive rights to groundwater against the non-stipulating parties. In addition, the judgment granted GSWC the right to use the Basin for temporary storage and to recapture 45 percent of the return flows that are generated from its importation of State Water Project water. Pursuant to this judgment, the court retained jurisdiction over all of the parties to make supplemental orders or to amend the judgment as necessary. In March 2008, the non-stipulating parties filed notices of appeal. In November 2012, the Appellate Court upheld the Santa Maria judgment, with a remand to the trial court to clarify the narrow issue that non-stipulating parties retained their overlying rights. There is no dispute on this clarification. In December 2012, the Appellate Court further modified the decision clarifying the basis for the overdraft finding that precipitated the prescriptive right finding. In December 2012, the non-stipulating parties filed a request with the California Supreme Court for a review of the Appellate Court findings. In February 2013, the California Supreme Court denied the parties request for review of the Appellate Court findings.

***Other Litigation*:**

Registrant is also subject to ordinary routine litigation incidental to its business. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against property, general liability and workers compensation claims incurred in the ordinary course of business. Management is unable to predict an estimate of the loss, if any, resulting from any pending suits or administrative proceedings.

Item 4. Mine Safety Disclosure

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Performance Graph

The graph below matches American States Water Company s cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the S&P 500 index, and a customized peer group of five companies that includes: Artesian Resources Corp., California Water Service Group, Connecticut Water Service Inc., Middlesex Water Company and SJW Corp. The graph assumes that the value of the investment in our common shares, in the peer group, and the index (including reinvestment of dividends) was $100 on December 31, 2007 and tracks it through December 31, 2012.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among American States Water Company, the S&P 500 Index, and a Peer Group

*$100 invested on 12/31/07 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

	12/07	12/08	12/09	12/10	12/11	12/12
American States Water Company	**$ 100.00**	**$ 90.07**	**$ 99.55**	**$ 99.80**	**$ 104.33**	**$ 148.00**
S&P 500	**$ 100.00**	**$ 63.00**	**$ 79.67**	**$ 91.67**	**$ 93.61**	**$ 108.59**
Peer Group	**$ 100.00**	**$ 106.63**	**$ 94.00**	**$ 104.05**	**$ 103.73**	**$ 114.43**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Table of Contents

Market Information Relating to Common Shares

Common Shares of American States Water Company are traded on the New York Stock Exchange (NYSE) under the symbol AWR . The intra-day high and low NYSE prices on the Common Shares for each quarter during the past two years, as reported by the Wall Street Journal s website, were:

	Stock Prices	
	High	Low
2012		
First Quarter	$ 38.00	$ 34.07
Second Quarter	39.92	34.90
Third Quarter	45.40	39.44
Fourth Quarter	48.13	40.64
2011		
First Quarter	$ 36.07	$ 32.67
Second Quarter	36.45	32.76
Third Quarter	35.75	30.53
Fourth Quarter	36.27	32.30

The closing price of the Common Shares of American States Water Company on the NYSE as reported on the Wall Street Journal s website on February 26, 2013 was $52.30.

Approximate Number of Holders of Common Shares

As of February 26, 2013, there were 2,564 holders of record of the 19,263,011 outstanding Common Shares of American States Water Company. AWR owns all of the outstanding common shares of GSWC and ASUS. ASUS owns all of the outstanding stock of the Military Utility Privatization Subsidiaries.

Frequency and Amount of Any Dividends Declared and Dividend Restrictions

For the last two years, AWR has paid dividends on its Common Shares on or about March 1, June 1, September 1 and December 1. The following table lists the amount of dividends paid on Common Shares of American States Water Company:

	2012	2011
First Quarter	$ 0.280	$ 0.260
Second Quarter	$ 0.280	$ 0.280
Third Quarter	$ 0.355	$ 0.280

Fourth Quarter	$	0.355	$	0.280
Total	$	1.270	$	1.100

AWR s ability to pay dividends is subject to the requirement in its $100.0 million revolving credit facility to maintain compliance with all covenants described in footnote (15) to the table in the section entitled *Contractual Obligations, Commitments and Off Balance Sheet Arrangements* included in Part II, Item 7 in Management s Discussion and Analysis of Financial Condition and Results of Operation. GSWC s maximum ability to pay dividends is restricted by certain Note Agreements to the sum of $21.0 million plus 100% of consolidated net income from certain dates plus the aggregate net cash proceeds received from capital stock offerings or other instruments convertible into capital stock from various dates. Under the most restrictive of the Note Agreements, $352.6 million was available from GSWC to pay dividends to AWR as of December 31, 2012. GSWC is also prohibited under the terms of senior notes from paying dividends if, after giving effect to the dividend, its total indebtedness to capitalization ratio (as defined) would be more than 0.6667 to 1. GSWC would have to issue additional debt of $478.8 million to invoke this covenant as of December 31, 2012.

The ability of AWR, GSWC and ASUS to pay dividends is also restricted by California law. Effective January 1, 2012, California revised the legal standards applicable to a California corporation seeking to distribute dividends. Under the revised law, AWR, GSWC and ASUS are each permitted to distribute dividends to its shareholders so long as the Board of Directors determines, in good faith, that either: (i) the value of the corporation s assets equals or exceeds the sum of its total liabilities immediately after the dividend, or (ii) its retained earnings equals or exceeds the amount of the distribution. Under the least restrictive of the California tests, approximately $205.3 million was available to pay dividends to AWR s common shareholders at December 31, 2012. Approximately $184.8 million was available for GSWC to pay dividends to AWR at December 31, 2012. Approximately $17.4 million was available for ASUS to pay dividends to AWR at December 31, 2012.

AWR paid $24.1 million in dividends to shareholders for the year ended December 31, 2012, as compared to $20.6 million for the year ended December 31, 2011. GSWC paid dividends of $10.2 million and $20.0 million to AWR in 2012 and 2011, respectively. ASUS paid dividends of $6.7 million to AWR in 2012 and none in 2011.

Table of Contents

Securities Authorized for Issuance under Equity Compensation Plans

AWR has made stock awards to its executive officers and managers under the 2000 Stock Incentive Plan and the 2008 Stock Incentive Plan. It has also made stock awards to its non-employee directors under the 2003 Non-Employee Directors Stock Plan. Information regarding the securities which have been issued and which are available for issuance under these plans is set forth in the table below as of December 31, 2012. This table does not include any Common Shares that may be issued under our 401(k) plan.

Plan Category	(a)(1) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) (1) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	201,579	$ 33.43	720,679
Equity compensation plans not approved by shareholders			
Total	201,579	$ 33.43	720,679

(1) Amounts shown are for options granted only. At December 31, 2012, there were 93,025 restricted stock units outstanding that had been granted to employees under the 2000 Plan and the 2008 Plan and 56,641 restricted stock units outstanding that had been granted to directors under the directors plan. There were also 5,818 performance awards granted to the President and Chief Executive Officer of the Company. Each restricted stock unit was issued with dividend equivalent rights until the restricted stock unit vests or is terminated earlier pursuant to the terms of the grant. We may not grant restricted stock units with respect to more than 118,000 of our common shares under the directors plan. Each performance award was issued with dividend equivalent rights with respect to the performance awards that will be determined by the Compensation Committee of the Board of Directors to have been earned by the President and Chief Executive Officer at the end of the performance period.

Other Information

The shareholders of AWR have approved the material features of all equity compensation plans under which AWR directly issues equity securities. AWR did not directly issue any unregistered equity securities during 2012.

The following table provides information about AWR repurchases of its Common Shares during the fourth quarter of 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs (3)
October 1 - 31, 2012	38,013	$ 43.83		NA
November 1 - 30, 2012	62,332	$ 44.53		NA

December 1 - 31, 2012	3,970	$ 45.69	NA
TOTAL	104,315(2)	$ 44.32	NA

(1) None of the Common Shares were purchased pursuant to any publicly announced stock repurchase program.

(2) Of this amount, 97,800 Common Shares were acquired on the open market for employees pursuant to our 401(k) Plan. The remainder of the Common Shares were acquired on the open market for participants in AWR s Common Share Purchase and Dividend Reinvestment Plan.

(3) None of these plans contain a maximum number of Common Shares that may be purchased in the open market under the plans. There is no termination date for either of these plans.

Table of Contents

Item 6. Selected Financial Data

AMERICAN STATES WATER COMPANY (AWR):

(in thousands, except per share amounts)		2012		2011		2010 (3)		2009		2008 (4)
Income Statement Information:										
Total Operating Revenues	$	466,908	$	419,913	$	399,776	$	354,166	$	312,215
Total Operating Expenses		355,814		324,809		325,957		285,324		251,277
Operating Income		111,094		95,104		73,819		68,842		60,938
Interest Expense		22,765		23,681		21,636		21,899		20,877
Interest Income		1,333		859		2,406		911		1,832
Income from Continuing Operations	$	54,148	$	42,010	$	31,091	$	29,374	$	25,996
Income (Loss) from Discontinued Operations, net of tax **(1)**	$		$	3,849	$	2,106	$	157	$	(3,991)
Basic Earnings per Common Share **(2):**										
Income from Continuing Operations	$	2.83	$	2.24	$	1.67	$	1.62	$	1.50
Income (Loss) from Discontinued Operations **(1)**				0.20		0.11		0.01		(0.23)
Total	$	2.83	$	2.44	$	1.78	$	1.63	$	1.27
Fully Diluted Earnings per Common Share **(2):**										
Income from Continuing Operations	$	2.82	$	2.23	$	1.66	$	1.61	$	1.49
Income (Loss) from Discontinued Operations **(1)**				0.20		0.11		0.01		(0.23)
Total	$	2.82	$	2.43	$	1.77	$	1.62	$	1.26
Average Shares Outstanding		18,999		18,693		18,585		18,052		17,262
Average number of Diluted Shares Outstanding		19,131		18,837		18,736		18,188		17,394
Dividends Declared per Common Share	$	1.27	$	1.10	$	1.04	$	1.01	$	1.00
Balance Sheet Information:										
Total Assets	$	1,280,943	$	1,238,362	$	1,192,035	$	1,113,293	$	1,061,287
Common Shareholders Equity		454,579		408,666		377,541		359,430		310,503
Long-Term Debt		332,463		340,395		299,839		300,221		260,561
Total Capitalization	$	787,042	$	749,061	$	677,380	$	659,651	$	571,064

GOLDEN STATE WATER COMPANY (GSWC):

(in thousands)		2012		2011		2010 (3)		2009		2008
Income Statement Information:										
Total Operating Revenues	$	342,931	$	336,725	$	327,416	$	295,034	$	269,857
Total Operating Expenses		256,326		253,047		263,615		231,548		206,939
Operating Income		86,605		83,678		63,801		63,486		62,918
Interest Expense		22,609		23,292		21,215		21,398		19,651
Interest Income		1,293		801		1,914		898		1,774
Net Income	$	39,220	$	34,822	$	25,110	$	25,373	$	27,819
Balance Sheet Information:										
Total Assets	$	1,214,052	$	1,173,383	$	1,078,478	$	1,021,845	$	970,150
Common Shareholder s Equity		416,257		384,806		358,295		331,530		324,533
Long-Term Debt		332,463		340,395		299,839		300,221		260,561

Total Capitalization	$	748,720	$	725,201	$	658,134	$	631,751	$	585,094

(1) In May 2011, AWR completed its sale of Chaparral City Water Company (CCWC) and recorded a gain on the sale (net of taxes and transaction costs) of approximately $2.2 million, or $0.12 per share. The results of CCWC for all periods included have been presented as a discontinued operation.

(2) In accordance with authoritative guidance for the effect of participating securities on earnings per share (EPS) calculations, AWR uses the two-class method of computing EPS for the effects of participating securities. AWR has participating securities related to stock options and stock units that earn dividend equivalents on an equal basis with Common Shares. Net income available for common shareholders excluding earnings available and allocated to participating securities was $53,767,000, $45,548,000, $33,023,000, $29,399,000 and $21,890,000 for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

(3) In 2010, results include a $16.6 million charge related to the impairment of assets and loss contingencies in connection with regulatory matters.

(4) In 2008, results include a $7.7 million goodwill impairment charge related to CCWC.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis provides information on AWR s consolidated operations and assets and where necessary, includes specific references to AWR s individual segments and/or other subsidiaries: GSWC, ASUS and its subsidiaries, or AWR s former subsidiary, Chaparral City Water Company (CCWC), which was a subsidiary until its sale in May 2011. Included in the following analysis is a discussion of water and electric gross margins. Water and electric gross margins are computed by taking total revenues, less total supply costs. Registrant uses these gross margins and related percentages as an important measure in evaluating its operating results. Registrant believes this measure is a useful internal benchmark in evaluating the performance of GSWC.

The discussions and tables included in the following analysis also present Registrant s operations in terms of earnings per share by business segment. Registrant believes that the disclosure of earnings per share by business segment provides investors with clarity surrounding the performance of our differing services and information that could be indicative of future performance for each business segment. Registrant reviews these measurements regularly and compares them to historical periods and to our operating budget. However, these measures, which are not presented in accordance with Generally Accepted Accounting Principles (GAAP), may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income or earnings per share, which are determined in accordance with GAAP. A reconciliation of water and electric margins to the most directly comparable GAAP measures are included in the table under the section titled *Operating Expenses: Supply Costs* . Reconciliations to AWR s diluted earnings per share are included in the discussions under the sections titled *Summary Results by Segment.*

Overview

Registrant s revenues, operating income and cash flows are earned primarily through delivering potable water to homes and businesses, through our contracted services business for the operation and maintenance and renewal and replacement of water and/or wastewater systems for the U.S. government at various military bases, and through the delivery of electricity in the Big Bear area of San Bernardino County, California. Rates charged to GSWC customers are determined by the CPUC. These rates are intended to allow recovery of operating costs and a reasonable rate of return on capital. Factors affecting financial performance of GSWC are described under Forward-Looking Information and include the process and timing of setting rates charged to customers; the ability to recover, and the process for recovering in rates, the costs of distributing water and electricity and our overhead costs; fines, penalties and disallowances by the CPUC arising from failures to comply with regulatory requirements; weather; the impact of increased water quality standards and environmental regulations on the cost of operations and capital expenditures; pressures on water supply caused by population growth, more stringent water quality standards, deterioration in water quality and water supply from a variety of causes; capital expenditures needed to upgrade water systems and increased costs and risks associated with litigation relating to water quality and water supply, including suits initiated by GSWC to protect its water supply.

Registrant plans to continue to seek additional rate increases in future years from the CPUC to recover operating and supply costs and receive reasonable returns on invested capital. Capital expenditures in future years at GSWC are expected to remain at much higher levels than depreciation expense. When necessary, Registrant obtains funds from external sources in the capital markets and through bank borrowings.

ASUS provides water and/or wastewater services, including the operation, maintenance, renewal and replacement of the water and/or wastewater systems, at various military installations pursuant to 50-year firm, fixed-price contracts. The contract price for each of these contracts is subject to prospective price redeterminations. Additional revenues generated by contract operations are primarily dependent on new construction activities under contract modifications or work done on behalf of other prime contractors. As a result, ASUS is subject to risks that are different than those of GSWC. Factors affecting the financial performance of our Military Utility Privatization Subsidiaries are described under Forward-Looking Information and include delays in receiving payments from and the redetermination and equitable adjustment of prices under the contracts with the U.S. government; fines, penalties or disallowance of costs by the U.S. government; and termination of contracts and suspension or debarment for a period of time from contracting with the government due to violations of federal law and regulations in connection with military utility privatization activities. Our financial performance is also dependent upon our ability to accurately estimate our costs in bidding on firm fixed-price construction contracts and the costs of seeking new contracts for the operation and maintenance and renewal and replacement of water and/or wastewater services at military bases and for additional construction work at existing bases. ASUS is also actively pursuing utility privatization contracts of other military bases to continue the expansion of the contracted services segment.

Table of Contents

Summary Results by Segment

AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has two principal business units included in continuing operations: water and electric service utility operations conducted through GSWC, and contracted services conducted through ASUS and its subsidiaries. The results of operations of CCWC have been reported as discontinued operations.

The table below set forth diluted earnings per share by business segment for AWR s continuing operations:

	Diluted Earnings per Share Year Ended		
	12/31/2012	**12/31/2011**	**CHANGE**
Water	$ 1.80	$ 1.66	$ 0.14
Electric	0.24	0.18	0.06
Contracted services	0.78	0.38	0.40
AWR (parent)		0.01	(0.01)
Totals from continuing operations, as reported	$ 2.82	$ 2.23	$ 0.59

For the year ended December 31, 2012, fully diluted earnings per share contributed by the water segment increased by $0.14 per share to $1.80 per share, as compared to $1.66 per share for the same period of 2011. Items impacting the comparability of the two periods are detailed below:

- An increase in the water gross margin of $5.9 million, or $0.18 per share, during the year ended December 31, 2012 compared to the same period of 2011 primarily as the result of CPUC-approved rate increases effective January 1, 2012 to recover infrastructure improvements and operating costs;

- An increase in operating expenses (other than supply costs) of approximately $4.5 million, or $0.14 per share, due, in large part, to an increase in depreciation expense of $2.5 million resulting from additions to utility plant. There was also an increase in: (i) other operation expense due primarily to higher labor and other employee related benefits and bad debt expense, and (ii) property and other taxes. These increases were partially offset by decreases in maintenance costs and administrative and general expense resulting primarily from lower outside service costs;

- An overall decrease in interest expense (net of interest income and other non-operating items) of approximately $2.0 million, or $0.06 per share, due primarily to: (i) a decrease in short-term bank borrowings; (ii) the redemption on October 1, 2012 of $8 million of notes with a 7.55% interest rate; (iii) a reduction in interest expense in connection with the CPUC s final decision issued in July 2012 on the water cost of capital proceeding; (iv) higher interest income earned on regulatory assets and a refund claim approved by the Internal Revenue Service, and (v) gains recorded on one of GSWC s investments; and

- A decrease in the effective income tax rate for the water segment during the year ended December 31, 2012 as compared to 2011, which increased earnings by approximately $0.04 per share primarily resulting from changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements.

Diluted earnings from electric operations increased by $0.06 per share during the year ended December 31, 2012 due primarily to: (i) the CPUC s approval of GSWC s application to recover $1.2 million, or $0.04 per share, in legal and outside services costs previously incurred in connection with BVES s efforts to procure renewable energy resources; (ii) an increase in the electric gross margin of $1.4 million, or $0.04 per share, and (iii) a decrease in the effective income tax rate, which increased earnings by approximately $0.01 per share primarily resulting from changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements. These increases were partially offset by an increase in other operating expenses (excluding the $1.2 million recovery of legal costs discussed above), which decreased earnings by $0.03 per share.

Diluted earnings from contracted services increased by $0.40 per share during the year ended December 31, 2012 due primarily to an increase in construction activities at all military bases served, particularly at Fort Bragg in North Carolina, the military bases in Virginia, and Fort Bliss in Texas. At Fort Bragg, there continues to be significant progress made on a major water and wastewater pipeline replacement project estimated to be substantially completed by the end of

Table of Contents

2013. A backflow preventer and meter project at Fort Bragg is also underway and is expected to be completed by mid-2014. Construction activity at the military bases in Virginia has increased primarily due to a pipeline and pump station replacement project, expected to be completed by September 2013. Finally, there was an overall increase in the renewal and replacement capital work, particularly at Fort Bliss consistent with the requirements to construct replacement assets under the 50-year contracts with the U.S. government.

The following discussion and analysis for the years ended December 31, 2012, 2011 and 2010 provides information on AWR s consolidated operations and assets and where necessary, includes specific references to AWR s individual segments and/or continuing subsidiaries, GSWC and ASUS and its subsidiaries, and the discontinued operations of CCWC.

Table of Contents

Consolidated Results of Operations — Years Ended December 31, 2012 and 2011 (amounts in thousands, except per share amounts):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 305,898	$ 300,450	$ 5,448	1.8%
Electric	37,033	36,275	758	2.1%
Contracted services	123,977	83,188	40,789	49.0%
Total operating revenues	466,908	419,913	46,995	11.2%
OPERATING EXPENSES				
Water purchased	54,010	47,530	6,480	13.6%
Power purchased for pumping	8,355	8,598	(243)	-2.8%
Groundwater production assessment	14,732	13,550	1,182	8.7%
Power purchased for resale	12,120	13,574	(1,454)	-10.7%
Supply cost balancing accounts	11,709	18,748	(7,039)	-37.5%
Other operation expenses	29,790	28,312	1,478	5.2%
Administrative and general expenses	70,556	74,061	(3,505)	-4.7%
Depreciation and amortization	41,385	38,349	3,036	7.9%
Maintenance	15,887	17,357	(1,470)	-8.5%
Property and other taxes	15,381	14,210	1,171	8.2%
ASUS construction expenses	81,957	50,648	31,309	61.8%
Net gain on sale of property	(68)	(128)	60	-46.9%
Total operating expenses	355,814	324,809	31,005	9.5%
OPERATING INCOME	111,094	95,104	15,990	16.8%
OTHER INCOME AND EXPENSES				
Interest expense	(22,765)	(23,681)	916	-3.9%
Interest income	1,333	859	474	55.2%
Other	431	(196)	627	-319.9%
	(21,001)	(23,018)	2,017	-8.8%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	90,093	72,086	18,007	25.0%
Income tax expense	35,945	30,076	5,869	19.5%
INCOME FROM CONTINUING OPERATIONS	54,148	42,010	12,138	28.9%
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX		3,849	(3,849)	-100.0%
NET INCOME	$ 54,148	$ 45,859	$ 8,289	18.1%
Basic earnings from continuing operations	$ 2.83	$ 2.24	$ 0.59	26.3%
Basic earnings from discontinued operations		0.20	(0.20)	-100.0%
	$ 2.83	$ 2.44	$ 0.39	16.0%
Diluted earnings from continuing operations	$ 2.82	$ 2.23	$ 0.59	26.5%
Diluted earnings from discontinued operations		0.20	(0.20)	-100.0%
	$ 2.82	$ 2.43	$ 0.39	16.0%

Table of Contents

Operating Revenues

General

Registrant relies upon rate approvals by the CPUC to recover operating expenses and to provide for a return on invested and borrowed capital used to fund utility plant for GSWC. ASUS files price redeterminations and requests for equitable adjustments with the U.S. government in order to recover operating expenses and provide profit margin for contracted services. If adequate rate relief and price redeterminations and adjustments are not granted in a timely manner, operating revenues and earnings can be negatively impacted. ASUS s earnings have also been positively impacted by additional construction projects at each of the Military Utility Privatization Subsidiaries.

Water

For the year ended December 31, 2012, revenues from water operations increased by $5.4 million to $305.9 million, compared to $300.5 million for the year ended December 31, 2011. The increase in water revenues is primarily due to CPUC-approved third year rate increases for Regions II and III effective January 1, 2012 to recover infrastructure improvements and operating costs. Also contributing to the increase in water revenues were advice letter filings made for the revenue recovery on capital projects completed at GSWC s Region I. In connection with the last Region I rate case approved in December 2010, the CPUC had authorized approximately $18.5 million of capital projects to be filed for revenue recovery with advice letters when those projects are completed. A portion of these projects were completed in late 2011 and throughout 2012. The remaining projects are expected to be completed during 2013 and 2014.

GSWC s revenue requirement and volumetric revenues are adopted as part of a general rate case (GRC) every three years. GSWC filed a GRC for all three water regions in July of 2011 with rates expected to be effective January 1, 2013. As further discussed in the *Regulatory Matters* section, in June 2012, GSWC filed a motion to adopt a settlement agreement resolving most issues between GSWC, the CPUC s Division of Ratepayer Advocates and The Utility Reform Network in connection with this GRC. The CPUC has not yet issued a proposed decision on this GRC.

GSWC s billed customer water usage increased by 4.8% as compared to 2011, but was lower than adopted consumption. Changes in consumption do not have a significant impact on earnings due to the CPUC-approved Water Revenue Adjustment Mechanism (WRAM) account in place in all three water regions. GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC in the WRAM accounts as regulatory assets or liabilities.

Electric

For the year ended December 31, 2012, revenues from electric operations increased to $37.0 million compared to $36.3 million for 2011 due primarily to attrition year increases in electric rates approved by the CPUC effective January 1, 2012.

Billed electric usage for the year ended December 31, 2012 decreased 2.6% as compared to 2011. Due to the CPUC approved Base Revenue Requirement Adjustment Mechanism, which adjusts certain revenues to adopted levels authorized by the CPUC, this change in usage did not have a significant impact on earnings.

Contracted Services

Revenues from contracted services consist primarily of construction revenues (including renewals and replacements) and management fees for operating and maintaining the water and/or wastewater systems at military bases. For the year ended December 31, 2012, revenues from contracted services increased by $40.8 million, or 49.0%, to $124.0 million as compared to $83.2 million for the year ended December 31, 2011. The increase in revenues was due, in large part, to an increase in construction activities at all military bases served, particularly at Fort Bragg in North Carolina, the military bases in Virginia, Fort Jackson in South Carolina and Fort Bliss in Texas.

At Fort Bragg, there continues to be significant progress made on a major water and wastewater pipeline replacement project estimated to be substantially completed by the end of 2013. A backflow preventer and meter project at Fort Bragg also contributed to an increase in construction activities and is expected to be completed by mid-2014. Construction activity at the military bases in Virginia has also increased primarily due to a pipeline and pump station replacement project, expected to be complete by September 2013. Finally, there was also an overall increase in the renewal and replacement work, particularly at Fort Bliss and Fort Jackson, consistent with the requirements to construct replacement assets under the 50-year contract with the U.S. government. The impact of these 2012 increases was partially offset by a $2.9 million increase in revenues recorded during the second quarter of 2011 due to a change in estimated costs related to the water and wastewater pipeline project at Fort Bragg.

The contracted services business continues to receive contract modifications from the U.S. government and agreements with third-party prime contractors for new construction projects at the Military Utility Privatization Subsidiaries. Earnings and cash flows from amendments and modifications to the original 50-year contracts with the U.S. government may or may not continue in future periods.

Table of Contents

Operating Expenses:

Supply Costs

Supply costs for the water segment consist of purchased water, power purchased for pumping, groundwater production assessments and water supply cost balancing accounts. Supply costs for the electric segment consist of power purchased for resale (including the cost of natural gas used by BVES s generating unit), renewable energy credits and the electric supply cost balancing account. Water and electric gross margins are computed by taking total revenues, less total supply costs. Registrant uses these gross margins and related percentages as important measures in evaluating its operating results. Registrant believes these measures are useful internal benchmarks in evaluating the utility business performance within its water and electric segments. Registrant reviews these measurements regularly and compares them to historical periods and to its operating budget. However, these measures, which are not presented in accordance with Generally Accepted Accounting Principles (GAAP), may not be comparable to similarly titled measures used by other entities and should not be considered as alternatives to operating income, which is determined in accordance with GAAP.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for 28.4% and 31.4% of total operating expenses for the years ended December 31, 2012 and 2011, respectively.

The table below provides the amount of increases (decreases), percent changes in supply costs, and gross margins during the years ended December 31, 2012 and 2011 (amounts in thousands):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
WATER OPERATING REVENUES **(1)**	$ 305,898	$ 300,450	$ 5,448	1.8%
WATER SUPPLY COSTS:				
Water purchased **(1)**	54,010	47,530	6,480	13.6%
Power purchased for pumping **(1)**	8,355	8,598	(243)	-2.8%
Groundwater production assessment **(1)**	14,732	13,550	1,182	8.7%
Water supply cost balancing accounts **(1)**	8,676	16,565	(7,889)	-47.6%
TOTAL WATER SUPPLY COSTS	$ 85,773	$ 86,243	$ (470)	-0.5%
WATER GROSS MARGIN **(2)**	$ 220,125	$ 214,207	$ 5,918	2.8%
PERCENT MARGIN - WATER	72.0%	71.3%		
ELECTRIC OPERATING REVENUES **(1)**	$ 37,033	$ 36,275	$ 758	2.1%
ELECTRIC SUPPLY COSTS:				
Power purchased for resale **(1)**	12,120	13,574	(1,454)	-10.7%
Electric supply cost balancing accounts **(1)**	3,033	2,183	850	38.9%
TOTAL ELECTRIC SUPPLY COSTS	$ 15,153	$ 15,757	$ (604)	-3.8%
ELECTRIC GROSS MARGIN **(2)**	$ 21,880	$ 20,518	$ 1,362	6.6%
PERCENT MARGIN - ELECTRIC	59.1%	56.6%		

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(1) As reported on AWR s Consolidated Statements of Income, except for supply cost balancing accounts. The sum of water and electric supply cost balancing accounts in the table above is shown on AWR s Consolidated Statements of Income and totaled $11,709,000

and $18,748,000 for the years ended December 31, 2012 and 2011, respectively.

(2) Water and electric gross margins do not include any depreciation and amortization, maintenance, administrative and general, property or other tax, or other operation expenses.

Two of the principal factors affecting water supply costs are the amount of water produced and the source of the water. Generally, the variable cost of producing water from wells is less than the cost of water purchased from wholesale suppliers. Under the modified cost balancing account (MCBA), GSWC tracks adopted and actual expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. GSWC records the variances (which include the effects of changes in both rate and volume) between adopted and actual water purchased, power purchased, and pump tax

Table of Contents

expenses as regulatory assets or liabilities. GSWC recovers from or refunds to customers the amount of such variances. GSWC tracks these variances individually for each water ratemaking area.

The overall adopted percentages for purchased water for the years ended December 31, 2012 and 2011 were approximately 41.6% and 41.3%, respectively, as compared to the actual percentages of 35.3% and 34.5%, respectively. The difference in actual mix compared to the mix approved by the CPUC resulted in an over-collection in the MCBA account. The overall water gross margin percent was 72.0% for the year ended December 31, 2012 as compared to 71.3% in the same period of 2011.

Purchased water costs for the year ended December 31, 2012 increased by 13.6% to $54.0 million as compared to $47.5 million in 2011. This increase was primarily due to higher water rates charged by wholesale suppliers and an increase in the amount of water purchased in all regions due to an increase in customers water consumption.

For the year ended December 31, 2012, power purchased for pumping decreased to $8.4 million, compared to $8.6 million for 2011. This was primarily due to lower electric supply rates and improved energy efficiency at GSWC s pumping facilities.

For the year ended December 31, 2012, groundwater production assessments were $14.7 million in 2012, as compared to $13.6 million in 2011 due to an increase in pump tax rates levied against groundwater production effective July 2012. Due to the MCBA account, these additional assessments do not impact the water margin. The MCBA tracks the increases in pump tax rates for future recovery in water rates.

There was a $7.9 million decrease in the water supply cost balancing account provision during the year ended December 31, 2012 as compared to 2011 primarily due to a decrease in the over-collection in the MCBA account from higher water supply rates and an overall increase in customer demand.

For the year ended December 31, 2012, the cost of power purchased for resale to customers in GSWC s BVES division decreased by 10.7% to $12.1 million as compared $13.6 million for 2011 due primarily to lower energy prices for power purchased in the spot market during 2012 as compared to 2011. The difference between the price of purchased power and $77 per megawatt-hour authorized by the CPUC is reflected in the electric supply cost balancing account.

Other Operation Expenses

The primary components of other operation expenses include payroll, materials and supplies, chemicals and water treatment, and outside service costs of operating the regulated water systems, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing, and operations of district offices. Registrant s electric and contracted services operations incur many of the same types of costs as well. For the years ended December 31, 2012 and 2011, other operation expenses by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
Water Services	$ 24,396	$ 22,329	$ 2,067	9.3%
Electric Services	2,542	2,270	272	12.0%
Contracted Services	2,852	3,713	(861)	-23.2%
Total other operation expenses	$ 29,790	$ 28,312	$ 1,478	5.2%

For the year ended December 31, 2012, other operation expenses for water services increased by $2.1 million as compared to 2011 primarily due to an increase in: (i) bad debt expense of $810,000; (ii) labor costs of $734,000 due primarily to an increase consistent with the Company s annual performance-based salary review program and an increase in temporary workers during 2012; (iii) postage and billing costs of $210,000, and (iv) other miscellaneous operation expenses of $313,000. Management does not anticipate bad debt expense to continue at these levels.

For the year ended December 31, 2012, other operation expenses for electric services increased by $272,000 primarily due to: (i) a $126,000 increase in labor and other employee related benefits resulting from an increase in temporary workers; (ii) a $69,000 increase in materials and equipment costs, and (iii) a $77,000 increase in other miscellaneous costs.

Table of Contents

For the year ended December 31, 2012, other operation expenses for contracted services decreased by $861,000 as compared to 2011, due largely to a decrease in pre-contract costs resulting from a decrease in the number of new capital construction projects for which the Military Utility Privatization Subsidiaries are required to perform design and engineering activities. Such costs may fluctuate from year-to-year depending on the amount of design and engineering work that the government may request prior to a contract modification and an assessment of recovery of such cost through contract modifications.

Administrative and General Expenses

Administrative and general expenses include payroll expenses related to administrative and general functions, the related employee benefits, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company, and general corporate expenses charged to expense accounts. For the years ended December 31, 2012 and 2011, administrative and general expenses by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
Water Services	$ 53,273	$ 54,053	$ (780)	-1.4%
Electric Services	6,866	7,865	(999)	-12.7%
Contracted Services	10,298	12,070	(1,772)	-14.7%
AWR (parent)	119	73	46	63.0%
Total administrative and general expenses	$ 70,556	$ 74,061	$ (3,505)	-4.7%

For the year ended December 31, 2012, administrative and general expenses for water services decreased by $780,000 compared to 2011 due primarily to a decrease in legal and other outside service costs of approximately $1.3 million. These costs tend to fluctuate year-to-year and are expected to continue to fluctuate. Decreases in legal and other outside service costs were partially offset by an increase in labor and other employee related benefits of approximately 3.5% consistent with the Company s annual performance-based salary review program. In addition, in the fourth quarter of 2012, an impairment charge of $416,000 was recorded as a result of the disallowance of certain capital costs in connection with settlement discussions held with the CPUC s Division of Ratepayer Advocates on the rehearing matter from the Region II, Region III and general office rate case, as more fully discussed later under *Regulatory Matters* .

For the year ended December 31, 2012, administrative and general expenses for electric services decreased by $1.0 million compared to 2011 primarily due to the CPUC s approval in March 2012 of recovery of $1.2 million of previously incurred legal and outside service costs in connection with BVES efforts to procure renewable energy resources. As a result, in March 2012 BVES recorded a $1.2 million reduction in legal and outside service costs, which had been previously expensed as incurred through March 31, 2011. The decrease in administrative and general expenses due to this item was partially offset by higher regulatory expenses incurred in connection with the current general rate case. In 2013, BVES is expecting to make another filing with the CPUC to recover additional costs incurred from April 1, 2011 through December 31, 2012 totaling approximately $842,000, which have been expensed. If approved by the CPUC, BVES will record a regulatory asset and corresponding decrease to legal and outside services costs.

For the year ended December 31, 2012, administrative and general expenses for contracted services decreased by $1.8 million due primarily to an increase in the allocation of overhead expenses to construction costs as compared to the same period in 2011, as a result of increased construction activities primarily at Fort Bragg in North Carolina, Fort Jackson in South Carolina and Fort Bliss in Texas. The allocation of overhead expenses to construction costs is reflected under ASUS construction expenses. As the military bases experienced higher construction activities relative to non-construction activities, allocated overhead cost to construction expense proportionately increased. The decrease in overhead allocation to administrative and general expenses was partially offset by an increase in labor and other employee related benefits, and outside service costs.

Table of Contents

Depreciation and Amortization

For the years ended December 31, 2012 and 2011, depreciation and amortization by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
Water Services	$ 37,905	$ 35,450	$ 2,455	6.9%
Electric Services	2,292	2,011	281	14.0%
Contracted Services	1,188	888	300	33.8%
Total depreciation and amortization	$ 41,385	$ 38,349	$ 3,036	7.9%

For the year ended December 31, 2012, depreciation and amortization expense for water services increased by $2.5 million to $37.9 million compared to $35.5 million for the year ended December 31, 2011, primarily due to approximately $88.0 million of additions to water utility plant in 2011.

For the year ended December 31, 2012, depreciation and amortization expense for electric services increased by $281,000 to $2.3 million compared to $2.0 million for year ended December 31, 2011, primarily due to approximately $5.1 million of additions to electric utility plant in 2011.

For the year ended December 31, 2012, depreciation and amortization expense for contracted services increased by $300,000 due primarily to the addition of fixed assets.

Maintenance

For the years ended December 31, 2012 and 2011, maintenance expense by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
Water Services	$ 13,567	$ 13,817	$ (250)	-1.8%
Electric Services	789	885	(96)	-10.8%
Contracted Services	1,531	2,655	(1,124)	-42.3%
Total maintenance	$ 15,887	$ 17,357	$ (1,470)	-8.5%

For the year ended December 31, 2012, maintenance expense for water services decreased by $250,000 compared to the year ended December 31, 2011 primarily due to a decrease in unplanned maintenance, such as for water leaks, at GSWC s water facilities.

For the year ended December 31, 2012, maintenance expense for contracted services decreased by $1.1 million due primarily to performing capital work to renew and replace infrastructure in lieu of performing routine maintenance to repair those assets. Such activity is reflected under ASUS construction expenses.

Table of Contents

Property and Other Taxes

For the years ended December 31, 2012 and 2011, property and other taxes by segment, consisted of the following (amounts in thousands):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
Water Services	$ 12,946	$ 12,025	$ 921	7.7%
Electric Services	889	826	63	7.6%
Contracted Services	1,546	1,359	187	13.8%
Total property and other taxes	$ 15,381	$ 14,210	$ 1,171	8.2%

For the year ended December 31, 2012, property and other taxes for water and electric services increased by $984,000 primarily due to increases in payroll taxes, franchise fees and property taxes.

For the year ended December 31, 2012, property and other taxes were higher for contracted services due to an increase in payroll taxes as a result of an increase in number of employees as compared to 2011.

ASUS Construction Expenses

For the year ended December 31, 2012, construction expenses for contracted services were $82.0 million, increasing by $31.3 million compared to the same period in 2011, due primarily to increased construction activity at all military bases served, particularly at Fort Bragg, the military bases in Virginia, Fort Jackson and Fort Bliss. At Fort Bragg, there continues to be significant progress made on a major water and wastewater pipeline replacement and the backflow preventer and meter projects. At the military bases in Virginia, there was a pipeline and pump station replacement project. Finally, there was also an overall increase in renewal and replacement activity, particularly at Fort Bliss and Fort Jackson, consistent with the requirements to construct replacement assets under those respective 50-year contracts with the U.S. government.

Interest Expense

For the years ended December 31, 2012 and 2011, interest expense by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
Water Services	$ 21,029	$ 21,739	$ (710)	-3.3%

Electric Services		1,580		1,553	27	1.7%
Contracted Services		186		376	(190)	-50.5%
AWR (parent)		(30)		13	(43)	-330.8%
Total interest expense	$	22,765	$	23,681	$ (916)	-3.9%

Overall, interest expense for the year ended December 31, 2012 decreased by $916,000 as compared to 2011. In connection with the CPUC s July 2012 final decision on the water cost of capital proceeding, GSWC recorded a $381,000 reduction to interest expense. The decision ordered GSWC to refund $408,000 to customers, as compared to the $789,000 GSWC had estimated in its interest rate balancing account. In addition, on October 1, 2012, GSWC redeemed $8 million of its 7.55% notes. Finally, there was a decrease in borrowings under Registrant s revolving credit facility. The average bank loan balance outstanding for the year ended December 31, 2012 was $885,000 as compared to $25.7 million during 2011. The average interest rate on short term borrowings was 1.5% during both 2012 and 2011.

Table of Contents

Interest Income

For the years ended December 31, 2012 and 2011, interest income by segment, including AWR (parent) consisted of the following (amounts in thousands):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
Water Services	$ 1,246	$ 749	$ 497	66.4%
Electric Services	47	52	(5)	-9.6%
Contracted Services	7	4	3	75.0%
AWR (parent)	33	54	(21)	-38.9%
Total interest income	$ 1,333	$ 859	$ 474	55.2%

Interest income increased by $474,000 for the year ended December 31, 2012 primarily as a result of changes in the settlement of refund claims approved by the Internal Revenue Service. In addition, there was an increase in interest income related to regulatory assets as compared to the same period in 2011.

Other Income and Expense

For the year ended December 31, 2012, Registrant recorded other income of $431,000 consisting primarily of a gain on investments held in a Rabbi Trust for the Supplemental Executive Retirement Plan. For the year ended December 31, 2011, Registrant recorded other expenses of $196,000 primarily related to a loss incurred on other investments.

Income Tax Expense

For the years ended December 31, 2012 and 2011, income tax expense by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2012	Year Ended 12/31/2011	$ CHANGE	% CHANGE
Water Services	$ 24,231	$ 24,006	$ 225	0.9%
Electric Services	2,269	1,820	449	24.7%
Contracted Services	9,437	4,431	5,006	113.0%
AWR (parent)	8	(181)	189	-104.4%
Total income tax expense	$ 35,945	$ 30,076	$ 5,869	19.5%

For the year ended December 31, 2012, income tax expense for water and electric services increased to $26.5 million compared to $25.8 million for the same period in 2011 due primarily to an increase in pretax income, partially offset by a decrease in the effective tax rate. The effective tax rate (ETR) for GSWC for the year ended December 31, 2012 was 40.3% as compared to a 42.7% ETR applicable to the same period of 2011. The ETR deviates from the federal statutory rate primarily due to state taxes and changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (principally plant-, rate-case- and compensation-related items), and changes in permanent items. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase occurring in another period.

Income tax expense for contracted services increased to $9.4 million compared to $4.4 million due primarily to an increase in pretax income. The ETR for contracted services was 38.6% for both 2012 and 2011.

Table of Contents

Consolidated Results of Operations   Years Ended December 31, 2011 and 2010 (amounts in thousands, except per share amounts):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 300,450	$ 291,617	$ 8,833	3.0%
Electric	36,275	35,799	476	1.3%
Contracted services	83,188	72,360	10,828	15.0%
Total operating revenues	419,913	399,776	20,137	5.0%
OPERATING EXPENSES				
Water purchased	47,530	46,865	665	1.4%
Power purchased for pumping	8,598	9,113	(515)	-5.7%
Groundwater production assessment	13,550	11,473	2,077	18.1%
Power purchased for resale	13,574	13,078	496	3.8%
Supply cost balancing accounts	18,748	20,622	(1,874)	-9.1%
Other operation expenses	28,312	29,107	(795)	-2.7%
Administrative and general expenses	74,061	86,266	(12,205)	-14.1%
Depreciation and amortization	38,349	37,405	944	2.5%
Maintenance	17,357	18,149	(792)	-4.4%
Property and other taxes	14,210	14,165	45	0.3%
ASUS construction expenses	50,648	40,357	10,291	25.5%
Net gain on sale of property	(128)	(643)	515	-80.1%
Total operating expenses	324,809	325,957	(1,148)	-0.4%
OPERATING INCOME	95,104	73,819	21,285	28.8%
OTHER INCOME AND EXPENSES				
Interest expense	(23,681)	(21,636)	(2,045)	9.5%
Interest income	859	2,406	(1,547)	-64.3%
Other	(196)	(463)	267	-57.7%
	(23,018)	(19,693)	(3,325)	16.9%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	72,086	54,126	17,960	33.2%
Income tax expense	30,076	23,035	7,041	30.6%
INCOME FROM CONTINUING OPERATIONS	42,010	31,091	10,919	35.1%
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	3,849	2,106	1,743	82.8%
NET INCOME	$ 45,859	$ 33,197	$ 12,662	38.1%
Basic earnings from continuing operations	$ 2.24	$ 1.67	$ 0.57	34.1%
Basic earnings from discontinued operations	0.20	0.11	0.09	81.8%
	$ 2.44	$ 1.78	$ 0.66	37.1%
Diluted earnings from continuing operations	$ 2.23	$ 1.66	$ 0.57	34.3%
Diluted earnings from discontinued operations	0.20	0.11	0.09	81.8%
	$ 2.43	$ 1.77	$ 0.66	37.3%

Table of Contents

The table below set forth diluted earnings per share by business segment for AWR s continuing operations:

Diluted Earnings per Share