

AMERICAN STATES WATER CO
Form 11-K
July 13, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 *[FEE REQUIRED]*

For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 *[NO FEE REQUIRED]*

For the transition period from _____ to _____

Commission file number: 001-14431

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Golden State Water Company Investment Incentive Program

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

American States Water Company

630 East Foothill Boulevard
San Dimas, California 91773

Golden State Water Company
Investment Incentive Program

**Financial Statements and
Supplemental Schedule**

**As of December 31, 2006 and 2005 and
for the Year Ended December 31, 2006**

**Golden State Water Company
Investment Incentive Program**

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Note: All schedules other than that listed above have been omitted since the information is either disclosed elsewhere in the financial statements or not required by 29 CFR 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended.

Report of Independent Registered Public Accounting Firm

Investment Incentive Program Administrative Committee
Golden State Water Company Investment Incentive Program
San Dimas, California

We have audited the accompanying statements of net assets available for Plan benefits of the Golden State Water Company Investment Incentive Program (the Plan) as of December 31, 2006 and 2005, and the related statement of changes in net assets available for Plan benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for Plan benefits as of December 31, 2006 and 2005, and the changes in net assets available for Plan benefits for the year ended December 31, 2006 in conformity with accounting standards generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2006 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

As further discussed in Note 2, the Plan adopted FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* for the years ended December 31, 2006 and 2005.

/s/ BDO Seidman, LLP
Costa Mesa, California
July 11, 2007

**Golden State Water Company
Investment Incentive Program**

Statements of Net Assets Available for Plan Benefits

<i>December 31,</i> Assets	2006	2005
Investments, at fair value	\$ 57,973,338	\$ 47,591,705
Contributions receivable	28,026	136,514
Net assets available for plan benefits, at fair value	\$ 58,001,364	\$ 47,728,219
Adjustment from fair value to contract value for interest in collective trust fund relating to fully benefit-responsive investment contracts	72,554	54,395
Net assets available for plan benefits	\$ 58,073,918	\$ 47,782,614

See accompanying notes to financial statements.

Golden State Water Company Investment Incentive Program

Statement of Changes in Net Assets Available for Plan Benefits

<i>Year ended December 31,</i>	2006
Additions:	
Contributions:	
Employee	\$ 2,974,607
Employer	1,242,049
Total contributions	4,216,656
Investment income:	
Net appreciation in value of investments	6,865,213
Interest and dividends	2,469,747
Total investment income	9,334,960
Total additions	13,551,616
Deductions:	
Benefits paid to participants	3,229,029
Loans in default	23,116
Administrative and other expenses	8,167
Total deductions	3,260,312
Net increase	10,291,304
Net assets available for plan benefits	
Beginning of year	47,782,614
End of year	\$ 58,073,918

See accompanying notes to financial statements.

Golden State Water Company Investment Incentive Program

Notes to Financial Statements

1. Plan Description

The following description of the Golden State Water Company Investment Incentive Program (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions. The Plan was formerly known as the Southern California Water Company Investment Incentive Program. Effective June 1, 2006, the Plan was renamed the Golden State Water Company Investment Incentive Plan.

General

The Plan is a defined contribution plan established by Golden State Water Company (the Company) under the provisions of Section 401(a) of the Internal Revenue Code (the IRC) which includes a qualified cash or deferred arrangement as described in Section 401(k) of the IRC, for the benefit of eligible employees of the Company. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Prior to inception of the Plan, the Company maintained the Payroll-Based Tax Credit Employee Stock Ownership Plan (the PAYSOP) for the benefit of participating employees and their beneficiaries. Under the PAYSOP, the Company contributed amounts equal to a tax credit claimed by the Company on its federal income tax return. This credit was calculated as a percentage of qualifying payroll. The Tax Reform Act of 1986 eliminated this credit for tax years after 1986. As a result, the Company terminated the PAYSOP and transferred the net assets into the Plan effective January 1, 1988. The trustee of the Plan maintains a separate account for the net assets which were transferred from the PAYSOP. The net assets relating to the PAYSOP amounted to \$3,134,383 and \$2,708,192 as of December 31, 2006 and 2005, respectively. Such net assets are considered non-participant directed investments and the full net assets balance is invested in the American States Water Company Stock Fund (See Note 6).

Golden State Water Company Investment Incentive Program

Notes to Financial Statements

**1. Plan Description
(Continued)**

In 1998, the Company formed a holding company, American States Water Company (ASWC). ASWC has no material assets other than the common stock of the Company. At the time of the formation, the Plan's investments in the Company's common stock changed to an investment in the ASWC common stock. Such change did not have a significant impact on the financial statements.

Effective January 1, 2002, the Plan was amended to adopt the changes allowed under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Effective January 1, 2003, the Plan was also amended to allow participants to redirect the investment of employer matching contributions which are initially required to be invested in the Company's stock fund, and transfer it to other funds. Furthermore, effective March 28, 2005, the Plan was amended to comply with the new distribution limitations in Section 401(a)(31)(B) of the Internal Revenue Code in that mandatory lump sum distributions will be made at termination, only for account balances under \$1,000.

Plan Administration

The Plan is administered by the Investment Incentive Program Administrative Committee (the Plan Administrator), which is appointed by the Company's Board of Directors. Wells Fargo Bank (Trustee) provides the record keeping services and serves as the Plan's appointed trustee.

Eligibility

Any employee who has completed a period of service of 30 consecutive days is eligible to participate in the Plan. Participation begins on the first day of the payroll period coincident with or next following the attainment of 30 consecutive days of service.

Golden State Water Company Investment Incentive Program

Notes to Financial Statements

1. Plan Description (Continued)

Contributions

Subject to statutory limits, eligible employees can contribute an amount between 1% and 20% of compensation, as defined in the Plan document. In 2006, the maximum allowable pre-tax deferral increased to \$15,000, with additional catch-up deferrals of up to \$5,000. In addition, the Company provides matching contributions of 100 percent of the first three percent and 50 percent of the next three percent contributed by a participant. Under the terms of the Plan, employer matching contributions are invested in the ASWC Common Stock Fund, formerly the Company's Common Stock Fund. Total contributions, including receivable, from the employer in cash and company stock amounted to \$30,200 and \$1,211,849, respectively, for the year ended December 31, 2006 (See Note 3).

Once employer matching contributions have been allocated to a participant's account, the participant may redirect the investment of such matching contributions into any of the investment funds, subject to compliance with applicable laws and any Company insider trading policies.

The ASWC Common Stock Fund shall be deemed an employee stock ownership plan within the meaning of Section 4975(e)(7) of the Code and ERISA Section 407(d)(6) that is intended to invest primarily in Company Stock. All cash dividends on Company Stock allocated to participants' accounts invested in the Company Stock Fund shall be reinvested in Company Stock, except for dividends allocated to any participant who elects that such dividends shall be distributed to the participant in cash. Such election shall be made in a manner prescribed by the Committee. Effective January 1, 2007, the allocations of Company match contributions was changed so that the investment of the Company contributions follow the choices made by the participant for investment of their own contributions.

Vesting

Participants are fully vested in their contributions and the employer contributions made to their account, plus actual earnings thereon.

Golden State Water Company Investment Incentive Program

Notes to Financial Statements

**1. Plan Description
(Continued)**

Distribution of Benefits

Participants' benefits under the Plan become distributable upon termination of service, as defined in the Plan document. Participants electing to have their distribution deferred will receive benefits equal to the amounts credited to their account as of the end of the next calendar quarter. The value of benefits distributable to a participant not electing deferral is based upon amounts credited to the participants account under the Plan as of the end of the preceding calendar quarter, except as described below.

A participant shall be entitled to request an in-service withdrawal of the lesser of the balance of his account or the total unwithdrawn deferral contributions after the participant has attained age 59-1/2. Such a distribution shall be permitted only once every two years while the participant remains an employee of the Company. In addition, subject to the approval of the Plan Administrator, withdrawals from a participant's account may be permitted before age 59-1/2 to meet a financial hardship, as defined in the Plan document.

A participant who has attained age 55 and completed at least ten years of participation in the Plan (including any years of participation in the PAYSOP) may elect a distribution of a portion of his PAYSOP account attributable to shares of Company Stock after December 31, 1986, as provided in Section 401(a)(28)(B) of the IRC.

Golden State Water Company Investment Incentive Program

Notes to Financial Statements

1. Plan Description (Continued)

Participant Accounts

Each participant's account is credited or debited with the participant's contributions and related employer matching contributions, as well as the participant's share of the Plan's earnings or losses. Certain administrative expenses (i.e. loan processing fee) directly relating to a participant's account are specifically deducted from the specific participant's account. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account balance.

Participant Loans

Participants may borrow from their account a minimum of \$1,000 up to a maximum amount equal to the lesser of \$50,000 or 50 percent of his or her account balance. Loan transactions are treated as a transfer between the investment fund and the Participant Loan Fund. Principal and interest are repayable ratably through payroll deductions over 36 months for loans less than \$5,000 and within 59 months for all other loans. The loans bear interest at the Prime Rate plus one percent. The interest rates as of December 31, 2006 range from 5% to 10.50%. A loan is considered to be in default at the end of the quarter in which any scheduled payment is more than thirty days late. Under the current terms and conditions of the Plan, there are no special provisions for loans made to purchase a principal residence.

Management determines the collectibility of participant loans on a periodic basis. This determination is made based on the terms of the Plan document and the related Plan policies and procedures. Those participant loans that are deemed to be uncollectible are written-off and included as loans in default in the financial statements and the Form 5500 for financial reporting purposes in the year the determination is made. As of December 31, 2006, there is a total of \$49,801 in participant loans deemed to be uncollectible of which \$23,116 were deemed uncollectible in 2006.

**Golden State Water Company
Investment Incentive Program**

Notes to Financial Statements

2. Summ