Golden State Water CO
Form 10-Q
August 06, 2012
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended June 30, 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 001-14431

American States Water Company

(Exact Name of Registrant as Specified in Its Charter)

California	**95-4676679**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	**91773-1212**

(Address of Principal Executive Offices) (Zip Code)

(909) 394-3600

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Commission file number 001-12008

Golden State Water Company

(Exact Name of Registrant as Specified in Its Charter)

California (State or Other Jurisdiction of Incorporation or Organization)	**95-1243678** (IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA (Address of Principal Executive Offices)	**91773-1212** (Zip Code)

(909) 394-3600

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether 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 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 o	Accelerated filer x	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 ¨ Nox
Golden State Water Company	Yes ¨ Nox

As of August 3, 2012, the number of Common Shares outstanding, of American States Water Company was 18,923,668 shares. As of August 3, 2012, all of the 146 outstanding Common Shares of Golden State Water Company were owned by American States Water Company.

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

Table of Contents

AMERICAN STATES WATER COMPANY

and

GOLDEN STATE WATER COMPANY

FORM 10-Q

INDEX

Table of Contents

PART I

Item 1. Financial Statements

General

The basic financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain information and footnote disclosures normally included in financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments consisting of normal recurring items and estimates necessary for a fair statement of results for the interim period have been made.

It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto in the latest Annual Report on Form 10-K of American States Water Company and its wholly owned subsidiary, Golden State Water Company.

Filing Format

American States Water Company (hereinafter AWR) is the parent company of Golden State Water Company (hereinafter GSWC) and American States Utility Services, Inc. (hereinafter ASUS) and its subsidiaries.

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: AWR and GSWC. For more information, please see Note 1 to the Notes to Consolidated Financial Statements and the heading entitled General in Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations. 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.

Forward-Looking Statements

This Form 10-Q 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 that 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

- 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

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

Table of Contents

- Changes in environmental laws and water quality and wastewater 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 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 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

- Changes in estimates used in ASUS 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 revenue 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 a water and electric system 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

- 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 these risks (which are more fully disclosed in our 2011 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all of our forward-looking statement by these cautionary statements.

Table of Contents

AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)	June 30, 2012	December 31, 2011
Property, Plant and Equipment		
Regulated utility plant, at cost	$ 1,324,583	$ 1,302,589
Non utility property, at cost	8,466	7,747
Total	1,333,049	1,310,336
Less - Accumulated depreciation	(433,040)	(413,836)
Net property, plant and equipment	900,009	896,500
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	13,471	11,803
Total other property and investments	14,587	12,919
Current Assets		
Cash and cash equivalents	25,915	1,315
Accounts receivable customers (less allowance for doubtful accounts of $762 in 2012 and $715 in 2011)	22,212	20,399
Unbilled revenue	25,955	16,188
Receivable from the U.S. government (less allowance for doubtful accounts of $0 in 2012 and 2011)	10,091	7,584
Other accounts receivable (less allowance for doubtful accounts of $367 in 2012 and $333 in 2011)	7,640	12,181
Income taxes receivable	7,657	20,537
Materials and supplies, at average cost	4,958	3,070
Regulatory assets current	31,814	36,362
Prepayments and other current assets	5,822	3,959
Costs and estimated earnings in excess of billings on uncompleted contracts	23,855	34,466
Deferred income taxes current	9,935	9,540
Total current assets	175,854	165,601
Regulatory and Other Assets		
Regulatory assets	143,867	143,595
Costs and estimated earnings in excess of billings on uncompleted contracts	1,477	598
Receivable from the U.S. government (less allowance for doubtful accounts of $0 in 2012 and 2011)	4,499	6,660
Deferred income taxes	11	15
Other	12,456	12,474
Total regulatory and other assets	162,310	163,342
Total Assets	$ 1,252,760	$ 1,238,362

The accompanying notes are an integral part of these consolidated financial statements

3

Table of Contents

AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

(Unaudited)

(in thousands)	June 30, 2012	December 31, 2011
Capitalization		
Common shares, no par value	$ 236,973	$ 233,306
Earnings reinvested in the business	189,941	175,360
Total common shareholders equity	426,914	408,666
Long-term debt	341,541	340,395
Total capitalization	768,455	749,061
Current Liabilities		
Notes payable to banks		2,000
Long-term debt current	177	291
Accounts payable	39,089	37,873
Income taxes payable	1,129	332
Accrued employee expenses	9,248	8,659
Accrued interest	3,921	3,938
Unrealized loss on purchased power contracts	5,176	7,611
Billings in excess of costs and estimated earnings on uncompleted contracts	25,887	26,973
Other	14,988	16,693
Total current liabilities	99,615	104,370
Other Credits		
Advances for construction	73,797	75,353
Contributions in aid of construction - net	100,240	100,037
Deferred income taxes	130,873	128,963
Unamortized investment tax credits	1,929	1,972
Accrued pension and other postretirement benefits	70,811	68,353
Billings in excess of costs and estimated earnings on uncompleted contracts		3,272
Other	7,040	6,981
Total other credits	384,690	384,931
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	$ 1,252,760	$ 1,238,362

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS

ENDED JUNE 30, 2012 AND 2011

(Unaudited)

(in thousands, except per share amounts)	**Three Months Ended June 30, 2012**	**2011**
Operating Revenues		
Water	$ 80,886	$ 80,151
Electric	8,373	7,710
Contracted services	25,052	21,968
Total operating revenues	114,311	109,829
Operating Expenses		
Water purchased	13,831	12,924
Power purchased for pumping	2,019	2,165
Groundwater production assessment	3,982	3,886
Power purchased for resale	2,680	2,854
Supply cost balancing accounts	4,163	4,245
Other operation expenses	6,851	6,946
Administrative and general expenses	17,792	17,740
Depreciation and amortization	10,407	9,538
Maintenance	3,852	4,623
Property and other taxes	3,716	3,406
ASUS construction expenses	14,896	12,491
Net gain on sale of property	(3)	(128)
Total operating expenses	84,186	80,690
Operating Income	30,125	29,139
Other Income and Expenses		
Interest expense	(5,720)	(6,869)
Interest income	495	161
Other	(13)	(289)
Total other income and expenses	(5,238)	(6,997)
Income from continuing operations before income tax expense	24,887	22,142
Income tax expense	9,809	9,414
Income from continuing operations	15,078	12,728
Income from discontinued operations, net of tax		3,234
Net Income	$ 15,078	$ 15,962
Basic Earnings Per Common Share		
Income from continuing operations	$ 0.79	$ 0.68
Income from discontinued operations		0.17

Net Income	$	0.79	$	0.85
Fully Diluted Earnings Per Share				
Income from continuing operations	$	0.79	$	0.68
Income from discontinued operations				0.17
Net Income	$	0.79	$	0.85
Weighted Average Number of Shares Outstanding		18,882		18,668
Weighted Average Number of Diluted Shares		18,945		18,738
Dividends Declared Per Common Share	$	0.28	$	0.28

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE SIX MONTHS

ENDED JUNE 30, 2012 AND 2011

(Unaudited)

(in thousands, except per share amounts)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating Revenues		
Water	$ 146,843	$ 144,477
Electric	19,186	18,434
Contracted services	54,930	41,225
Total operating revenues	220,959	204,136
Operating Expenses		
Water purchased	23,383	21,585
Power purchased for pumping	3,575	3,701
Groundwater production assessment	7,305	6,512
Power purchased for resale	5,871	6,729
Supply cost balancing accounts	7,600	9,324
Other operation expenses	14,277	13,863
Administrative and general expenses	34,377	36,159
Depreciation and amortization	20,897	19,275
Maintenance	7,183	8,349
Property and other taxes	7,821	6,958
ASUS construction expenses	35,181	24,675
Net gain on sale of property	(3)	(128)
Total operating expenses	167,467	157,002
Operating Income	53,492	47,134
Other Income and Expenses		
Interest expense	(11,790)	(12,613)
Interest income	710	298
Other	216	(209)
Total other income and expenses	(10,864)	(12,524)
Income from continuing operations before income tax expense	42,628	34,610
Income tax expense	17,435	14,927
Income from continuing operations	25,193	19,683
Income from discontinued operations, net of tax		3,868
Net Income	$ 25,193	$ 23,551
Basic Earnings Per Common Share		
Income from continuing operations	$ 1.33	$ 1.05
Income from discontinued operations		0.20

Net Income	$	1.33	$	1.25
Fully Diluted Earnings Per Share				
Income from continuing operations	$	1.32	$	1.05
Income from discontinued operations				0.20
Net Income	$	1.32	$	1.25
Weighted Average Number of Shares Outstanding		18,857		18,658
Weighted Average Number of Diluted Shares		18,988		18,797
Dividends Declared Per Common Share	$	0.56	$	0.54

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(Unaudited)

(in thousands)	Six Months Ended June 30, 2012	2011
Cash Flows From Operating Activities:		
Net income	$ 25,193	$ 23,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of CCWC, net of taxes		(2,454)
Depreciation and amortization	20,897	19,275
Provision for doubtful accounts	959	577
Gain on sale of property	(3)	(128)
Deferred income taxes and investment tax credits	2,361	(216)
Stock-based compensation expense	1,170	969
Other net	(257)	679
Changes in assets and liabilities:		
Accounts receivable customers	(2,738)	(6,318)
Unbilled revenue	(9,767)	(3,484)
Other accounts receivable	4,306	(1,159)
Receivable from the U.S. government	(346)	(10,718)
Materials and supplies	(1,888)	(326)
Prepayments and other current assets	(1,863)	1,030
Regulatory assets supply cost balancing accounts	7,600	9,324
Costs and estimated earnings in excess of billings on uncompleted contracts	9,732	1,672
Other assets (including other regulatory assets)	(8,471)	(12,224)
Accounts payable	4,428	9,583
Income taxes receivable/payable	13,677	(2,202)
Billings in excess of costs and estimated earnings on uncompleted contracts	(4,358)	4,141
Accrued pension and other postretirement benefits	4,379	1,745
Other liabilities	(1,074)	(378)
Net cash provided	63,937	32,939
Cash Flows From Investing Activities:		
Construction expenditures	(29,447)	(37,295)
Proceeds from the sale of CCWC		29,025
Other	4	(72)
Net cash used	(29,443)	(8,342)
Cash Flows From Financing Activities:		
Proceeds from issuance of Common Shares and stock option exercises	2,748	953
Receipt of advances for and contributions in aid of construction	2,049	3,497
Refunds on advances for construction	(2,684)	(2,351)
Repayments of long-term debt	(234)	(22,279)
Proceeds from issuance of long-term debt, net of issuance costs	1,266	61,914
Net change in notes payable to banks	(2,000)	(48,900)
Dividends paid	(10,559)	(10,074)
Other net	(480)	(292)

Net cash used		(9,894)		(17,532)
Net increase in cash and cash equivalents		24,600		7,065
Cash and cash equivalents, beginning of period		1,315		4,197
Cash and cash equivalents of continuing operations	$	25,915	$	11,262

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents

GOLDEN STATE WATER COMPANY

BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)		June 30, 2012		December 31, 2011
Utility Plant				
Utility plant, at cost	$	1,324,583	$	1,302,589
Less - Accumulated depreciation		(429,300)		(410,644)
Net utility plant		895,283		891,945
Other Property and Investments		11,300		9,626
Current Assets				
Cash and cash equivalents		6,799		
Accounts receivable-customers (less allowance for doubtful accounts of $762 in 2012 and $715 in 2011)		22,212		20,399
Unbilled revenue		25,955		16,188
Inter-company receivable		1,137		785
Other accounts receivable (less allowance for doubtful accounts of $290 in 2012 and 2011)		6,479		7,755
Income taxes receivable from Parent		6,315		19,914
Materials and supplies, at average cost		2,105		1,926
Regulatory assets current		31,814		36,362
Prepayments and other current assets		5,474		3,710
Deferred income taxes current		8,898		8,497
Total current assets		117,188		115,536
Regulatory and Other Assets				
Regulatory assets		143,867		143,595
Other accounts receivable		2,039		1,838
Other		10,605		10,843
Total regulatory and other assets		156,511		156,276
Total Assets	$	1,180,282	$	1,173,383

The accompanying notes are an integral part of these financial statements

Table of Contents

GOLDEN STATE WATER COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

(Unaudited)

(in thousands)	June 30, 2012	December 31, 2011
Capitalization		
Common shares, no par value	$ 229,734	$ 228,936
Earnings reinvested in the business	164,361	155,870
Total common shareholder s equity	394,095	384,806
Long-term debt	341,541	340,395
Total capitalization	735,636	725,201
Current Liabilities		
Long-term debt current	177	291
Accounts payable	27,990	31,227
Accrued employee expenses	8,384	7,544
Accrued interest	3,921	3,938
Unrealized loss on purchased power contracts	5,176	7,611
Other	14,565	16,162
Total current liabilities	60,213	66,773
Other Credits		
Advances for construction	73,797	75,353
Contributions in aid of construction net	100,240	100,037
Deferred income taxes	130,725	128,815
Unamortized investment tax credits	1,929	1,972
Accrued pension and other postretirement benefits	70,811	68,353
Other	6,931	6,879
Total other credits	384,433	381,409
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	$ 1,180,282	$ 1,173,383

The accompanying notes are an integral part of these financial statements

Table of Contents

GOLDEN STATE WATER COMPANY

STATEMENTS OF INCOME

FOR THE THREE MONTHS

ENDED JUNE 30, 2012 AND 2011

(Unaudited)

(in thousands)	**Three Months Ended June 30, 2012**	**2011**
Operating Revenues		
Water	$ 80,886	$ 80,151
Electric	8,373	7,710
Total operating revenues	89,259	87,861
Operating Expenses		
Water purchased	13,831	12,924
Power purchased for pumping	2,019	2,165
Groundwater production assessment	3,982	3,886
Power purchased for resale	2,680	2,854
Supply cost balancing accounts	4,163	4,245
Other operating expenses	6,202	5,842
Administrative and general expenses	15,399	14,922
Depreciation and amortization	10,122	9,321
Maintenance	3,357	4,006
Property and other taxes	3,354	3,113
Net gain on sale of property		(128)
Total operating expenses	65,109	63,150
Operating Income	24,150	24,711
Other Income and Expenses		
Interest expense	(5,680)	(6,685)
Interest income	469	155
Other	(14)	(477)
Total other income and expenses	(5,225)	(7,007)
Income from operations before income tax expense	18,925	17,704
Income tax expense	7,567	7,699
Net Income	$ 11,358	$ 10,005

The accompanying notes are an integral part of these financial statements

Table of Contents

GOLDEN STATE WATER COMPANY

STATEMENTS OF INCOME

FOR THE SIX MONTHS

ENDED JUNE 30, 2012 AND 2011

(Unaudited)

(in thousands)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating Revenues		
Water	$ 146,843	$ 144,477
Electric	19,186	18,434
Total operating revenues	166,029	162,911
Operating Expenses		
Water purchased	23,383	21,585
Power purchased for pumping	3,575	3,701
Groundwater production assessment	7,305	6,512
Power purchased for resale	5,871	6,729
Supply cost balancing accounts	7,600	9,324
Other operating expenses	12,851	11,556
Administrative and general expenses	28,851	29,784
Depreciation and amortization	20,342	18,837
Maintenance	6,297	6,990
Property and other taxes	7,097	6,272
Net gain on sale of property		(128)
Total operating expenses	123,172	121,162
Operating Income	42,857	41,749
Other Income and Expenses		
Interest expense	(11,689)	(12,298)
Interest income	679	290
Other	215	(399)
Total other income and expenses	(10,795)	(12,407)
Income from operations before income tax expense	32,062	29,342
Income tax expense	13,322	12,935
Net Income	$ 18,740	$ 16,407

The accompanying notes are an integral part of these financial statements

Table of Contents

GOLDEN STATE WATER COMPANY

STATEMENTS OF CASH FLOW

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(Unaudited)

(in thousands)	Six Months Ended June 30, 2012	2011
Cash Flows From Operating Activities:		
Net income	$ 18,740	$ 16,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,342	18,837
Gain on sale of property		(128)
Provision for doubtful accounts	925	498
Deferred income taxes and investment tax credits	2,351	(65)
Stock-based compensation expense	961	853
Other net	(323)	704
Changes in assets and liabilities:		
Accounts receivable customers	(2,738)	(6,318)
Unbilled revenue	(9,767)	(3,484)
Other accounts receivable	1,075	673
Materials and supplies	(179)	(102)
Prepayments and other current assets	(1,764)	860
Regulatory assets supply cost balancing accounts	7,600	9,324
Other assets (including other regulatory assets)	(8,383)	(12,127)
Accounts payable	(25)	10,316
Inter-company receivable/payable	(352)	(840)
Income taxes receivable/payable from/to Parent	13,599	(4,115)
Accrued pension and other postretirement benefits	4,379	1,745
Other liabilities	(722)	24
Net cash provided	45,719	33,062
Cash Flows From Investing Activities:		
Construction expenditures	(28,728)	(36,715)
Proceeds from sale of property		144
Net cash used	(28,728)	(36,571)
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	2,049	3,497
Refunds on advances for construction	(2,684)	(2,351)
Proceeds from the issuance of long-term debt, net of issuance costs	1,266	61,914
Repayments of long-term debt	(234)	(22,279)
Net change in inter-company borrowings		(26,000)
Dividends paid	(10,200)	(10,000)
Other net	(389)	(237)
Net cash (used) provided	(10,192)	4,544
Net increase in cash and cash equivalents	6,799	1,035
Cash and cash equivalents, beginning of period		1,541
Cash and cash equivalents, end of period	$ 6,799	$ 2,576

The accompanying notes are an integral part of these financial statements

Table of Contents

AMERICAN STATES WATER COMPANY AND SUBSIDIARIES

AND

GOLDEN STATE WATER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Summary of Significant Accounting Policies:

Nature of Operations: American States Water Company (AWR) is the parent company of Golden State Water Company (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)). The subsidiaries of ASUS may be collectively referred to herein as the Military Utility Privatization Subsidiaries. AWR was also the parent company of Chaparral City Water Company (CCWC) until the sale of CCWC on May 31, 2011.

GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 255,000 customers. GSWC also distributes electricity in several San Bernardino Mountain communities in California serving approximately 23,000 customers. The California Public Utilities Commission (CPUC) regulates GSWC s water and electric businesses, including properties, rates, services, facilities and other matters, and transactions by GSWC with its affiliates. AWR s assets and operating income are primarily those of GSWC.

ASUS performs water and wastewater services, including the operation, maintenance, renewal and replacement of water and/or wastewater systems on a contract basis. Through its wholly owned subsidiaries, ASUS operates and maintains the water and/or wastewater systems at various military bases pursuant to 50-year firm, fixed-price contracts, which are subject to periodic price redeterminations and modifications for changes in circumstances, and changes in laws and regulations. There is no direct regulatory oversight by the CPUC over AWR or the operation, rates or services provided by ASUS or any of its wholly owned subsidiaries.

Basis of Presentation: The consolidated financial statements and notes thereto are being presented in a combined report being filed by two separate Registrants: AWR and GSWC. References in this report to Registrant are to AWR and GSWC, collectively, unless otherwise specified. Certain prior period amounts have been reclassified to conform to the 2012 financial statement presentation.

The consolidated financial statements of AWR include the accounts of AWR and its subsidiaries, all of which are wholly owned. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Inter-company transactions and balances have been eliminated in the AWR consolidated financial statements. The operational results of CCWC for the periods presented are reported in discontinued operations, net of transaction costs.

The consolidated financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The December 31, 2011 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal, recurring items and estimates necessary for a fair statement of the results for the interim periods, have been made. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2011 filed with the SEC.

GSWC s Related Party Transactions: GSWC and ASUS provide and receive various services to and from their parent, AWR. Any transactions between GSWC and AWR or ASUS are governed by the CPUC s affiliate transaction rules. In addition, AWR has a $100.0 million syndicated credit facility. AWR borrows under this facility and provides funds to its subsidiaries, including GSWC, in support of their operations. Any amounts owed to AWR for borrowings under this facility are included in inter-company payables on GSWC s balance sheet. The interest rate charged to GSWC and other affiliates is sufficient to cover AWR s interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to its affiliate, ASUS, using allocation factors mandated by the CPUC. Through May 31, 2011, GSWC also allocated costs to CCWC.

Table of Contents

Sales and Use Taxes: GSWC bills certain sales and use taxes levied by state or local governments to its customers. Included in these sales and use taxes are franchise fees, which GSWC pays to various municipalities (based on ordinances adopted by these municipalities) in order to use public right of way for utility purposes. GSWC bills these franchise fees to its customers based on a CPUC-authorized rate. These franchise fees, which are required to be paid regardless of GSWC s ability to collect from the customer, are accounted for on a gross basis. GSWC s franchise fees billed to customers and recorded as operating revenue were approximately $850,000 and $764,000 for the three months ended June 30, 2012 and 2011, respectively, and $1,634,000 and $1,464,000 for the six months ended June 30, 2012 and 2011, respectively. When GSWC acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis.

Depending on the state in which the operations are conducted, ASUS and its subsidiaries are also subject to certain state non-income tax assessments generally computed on a gross receipts or gross revenues basis. These non-income tax assessments are required to be paid regardless of whether the subsidiary is reimbursed by the U.S. government for these assessments under its 50-year contracts with the U.S. government. The non-income tax assessments are accounted for on a gross basis and totaled $186,000 and $171,000 during the three months ended June 30, 2012 and 2011, respectively, and $341,000 and $365,000 for the six months ended June 30, 2012 and 2011, respectively.

Recently Adopted Accounting Pronouncements: In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). Under ASU 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under both options, an entity will be required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In December 2011, the FASB issued Accounting Standards Update No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12), which deferred the requirement to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income while the FASB further deliberates this aspect of the proposal. The adoption of the new guidance did not have any impact on Registrant s consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment (ASU 2011-08). Under ASU 2011-08, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performing the two-step impairment test is not required. The guidance does not change how an entity measures a goodwill impairment loss, and is therefore not expected to affect the information reported to users of an entity s financial statements. The guidance also includes examples of events and circumstances that an entity should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of the new guidance did not have any impact on Registrant s consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (ASU 2011-11). The ASU 2011-11 amendments require companies to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU 2011-11 is required to be applied retrospectively for all prior periods presented and is effective for annual periods for fiscal years beginning on or after January 1, 2013, and interim periods within those annual fiscal years. Registrant does not expect adoption of this standard to have a material impact on its consolidated results of operations and financial condition.

Other accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on Registrant s consolidated financial statements upon adoption.

Table of Contents

Note 2 Regulatory Matters:

In accordance with accounting principles for rate-regulated enterprises, Registrant records regulatory assets, which represent probable future recovery of costs from customers through the ratemaking process, and regulatory liabilities, which represent probable future refunds that are to be credited to customers through the ratemaking process. At June 30, 2012, Registrant had approximately $81.2 million of regulatory assets, net of regulatory liabilities not accruing carrying costs. Of this amount, $53.0 million relates to the underfunded positions of the pension and other post-retirement obligations, $16.1 million relates to deferred income taxes representing accelerated tax benefits flowed through to customers, which will be included in rates concurrently with recognition of the associated future tax expense, and $5.2 million relates to a memorandum account authorized by the CPUC to track unrealized gains and losses on GSWC s purchase power contract over the life of the contract. The remainder relates to other items that do not provide for or incur carrying costs. Regulatory assets, less regulatory liabilities, included in the consolidated balance sheets are as follows:

(dollars in thousands)	**June 30, 2012**	**December 31, 2011**
GSWC		
Electric supply cost balancing account	$ 6,472	$ 8,347
Water Revenue Adjustment Mechanism, net of Modified Cost Balancing Account	38,273	39,112
Base Revenue Requirement Adjustment Mechanism	5,410	4,053
Costs deferred for future recovery on Aerojet case	16,673	17,173
Pensions and other post-retirement obligations	56,142	56,960
Derivative unrealized loss (Note 4)	5,176	7,611
Flow-through taxes, net (Note 6)	16,147	17,032
Electric transmission line abandonment costs	2,315	2,428
Asset retirement obligations	2,890	2,793
Low income rate assistance balancing accounts	7,728	6,194
General rate case memorandum accounts	9,290	12,922
Santa Maria adjudication memorandum accounts	3,645	3,662
Bay Point balancing accounts	5,475	5,752
Other regulatory assets, net	9,878	8,409
Various refunds to customers	(9,833)	(12,491)
Total	$ 175,681	$ 179,957

Regulatory matters are discussed in detail in the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2011 filed with the SEC. The discussion below focuses on significant matters and changes since December 31, 2011.

Alternative-Revenue Programs:

GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC using the Water Revenue Adjustment Mechanism (WRAM). GSWC also records the difference between adopted and actual expense levels for purchased water, purchased power and pump taxes, as established by the CPUC, using the Modified Cost Balancing Account (MCBA) accounts. GSWC has implemented surcharges to recover its WRAM balances, net of the MCBA. For the three months ended June 30, 2012 and 2011, surcharges of $4.2 million and $4.0 million, respectively, were billed to customers to decrease previously incurred under-collections in the WRAM, net of MCBA accounts, and approximately $7.6 million and $5.6 million, for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, GSWC has a net aggregated regulatory asset of $38.3 million which is comprised of a $61.1 million under-collection in the WRAM accounts and $22.8 million over-collection in the MCBA accounts.

Based on CPUC guidelines, recovery periods relating to GSWC s WRAM/MCBA balances range between 12 and 36 months, with the majority being 24 months. As required by the accounting guidance for alternative revenue programs, GSWC is required to collect its WRAM, net of its MCBA, within 24 months following the year in which they are recorded. In September 2010, GSWC, along with other California water utilities, filed an application with the CPUC to modify the recovery period of its WRAM and MCBA to 18 months or less. In April 2012, the CPUC issued a final decision which, among other things, sets the recovery period for under-collection balances that are up to 15% of adopted annual revenues at 18 months or less. For under-collection balances greater than 15%, the recovery period is 19 to 36 months. GSWC does not currently have any balances over 15% of adopted annual revenues. In addition to adopting a new amortization schedule, the final decision sets a cap on total net WRAM/MCBA surcharges in any given calendar year of 10% of the last authorized revenue requirement. For GSWC, the cap will be applied to its 2013 WRAM balances filed in early 2014. The cap requirement set forth in the final decision will not impact GSWC s 2012 and prior year WRAM/MCBA balances.

Table of Contents

In June 2012, the CPUC approved surcharges for recovery of the 2011 Base Revenue Requirement Adjustment Mechanism (BRRAM) balance. The CPUC approved a 36-month surcharge, with the amounts collected through December 2013 to be applied to the 2011 BRRAM under-collection. Surcharges collected during the remainder of the 36-month period would be for recovery of a $1.6 million increase in the BVES revenue requirement representing the difference between the allocated general office costs authorized by the CPUC in its November 2010 decision on the Region II, Region III and general office rate case, and what is currently in BVES rates for allocated general office costs. As authorized by the CPUC, the $1.6 million was included in the BRRAM for recovery through the surcharge; however, these costs are not considered an alternative revenue program.

Other Regulatory Matters:

Cost of Capital Proceeding for Water Regions

In July 2012, the CPUC issued a final decision on GSWC s cost of capital proceeding filed in May 2011. The decision approves the settlement agreement entered into between GSWC, along with three other California water utilities, and the Division of Ratepayer Advocates (DRA) in November 2011. The approved settlement authorizes a Return on Equity (ROE) of 9.99% and a rate-making capital structure for GSWC of 55% equity and 45% debt. The weighted cost of capital (return on rate base), with an updated embedded debt cost and the settlement ROE, is 8.64%. The new rate of return authorized by the CPUC s final decision will be implemented into water rates retroactive to January 1, 2012. Among other things, the final decision requires GSWC to refund to customers approximately $408,000, representing the settled amount included in the interest rate balancing account. GSWC had estimated $789,000 would be refunded to customers, which had been recorded in the interest rate balancing account. As a result of the CPUC s decision, GSWC recorded a reduction in interest expense of $381,000 in the second quarter of 2012 and discontinued the interest rate balancing account. GSWC will refund the $408,000 to customers through a one-time surcredit.

La Serena Plant Improvement Project:

In January 2008, the CPUC approved Region I s general rate case effective for years 2008, 2009 and 2010. The rates authorized by the CPUC in the decision included the costs of the La Serena plant improvement project as part of the utility rate base. Subsequent to the issued decision, the CPUC s Division of Ratepayer Advocates (DRA) requested a rehearing on whether these costs were reasonable. The CPUC granted a limited rehearing, which was consolidated into GSWC s Region II, Region III, and general office rate case, in order to consider whether it is reasonable to include in Region I s rate base approximately $3.5 million of costs incurred in connection with the La Serena plant improvement project. In November 2010, as part of GSWC s Region II, Region III and general office rate case decision, the CPUC disallowed a portion of the La Serena plant improvement costs from utility customer rates. The CPUC found that the disallowed portion of the costs were attributable to providing service to new development and should have been recovered from the customers in the new development. As a result of the CPUC s decision, in 2010 GSWC recorded a charge of $2.2 million, which included the disallowance of certain capital costs for the La Serena plant improvement project and the related revenues earned on those capital costs that will be refunded to customers.

In December 2010, DRA filed a motion for rehearing on this matter, contending that the CPUC erred in assigning a portion of the La Serena plant improvement costs to GSWC utility customers and requested that all of the capital costs related to the La Serena plant improvement project be disallowed. In July 2011, the CPUC granted DRA s request for rehearing. The rehearing will also address deferred rate case costs and the methodology for allocation of general office costs to GSWC s affiliate, ASUS. Hearings on these matters are expected in the third or fourth quarter of 2012. In addition to granting a rehearing, the CPUC also directed the Division of Water and Audits to undertake an audit of the La Serena project costs and to provide a confidential report to the CPUC with recommendations on whether an investigation should be conducted to determine whether any laws were broken related to the La Serena project. At this time, management cannot predict the outcome of the rehearing, DWA s recommendations, or determine the estimated loss or range of loss, if any.

Changes in Tax Law

The Small Business Jobs Act of 2010 and the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (Tax Relief Acts) extended 50% bonus depreciation for qualifying property through 2012 and created 100% bonus depreciation for qualifying property placed in service between September 9, 2010 and December 31, 2011.

Table of Contents

In June 2011, the CPUC adopted a resolution that requires water utilities to file advice letters implementing a one-way memorandum account to track the revenue effects associated with the Tax Relief Acts. This may result in a reduction in revenue requirements in future rate case proceedings. The effective date of the memorandum account established by the resolution was April 14, 2011. More specifically, the memorandum account established by the resolution tracks on a CPUC-jurisdictional, revenue-requirement basis: (a) decreases in each impacted utility s revenue requirement resulting from increases in its deferred tax reserve; and (b) other direct changes in the revenue requirement resulting from taking advantage of the Tax Relief Acts. This resolution also authorizes impacted utilities to use savings from this new tax law to invest in certain additional, needed utility infrastructure, not otherwise funded in rates, within a time frame shorter than would be practicable through the formal application or advice letter processes. The establishment of a memorandum account does not change rates, nor guarantee that rates will be changed in the future. This mechanism simply allows the CPUC to determine at a future date whether rates should be changed. GSWC has evaluated the potential impact of this resolution and does not expect it to have a material impact on its consolidated financial statements in 2012.

Renewables Portfolio Standard

GSWC s BVES division has been regularly filing compliance reports with the CPUC regarding its purchases of energy from renewable energy resources (RPS). Previous filings under prior RPS laws had indicated that BVES had not achieved annual target purchase levels of renewable energy resources and thus, on its face, might be subject to a potential penalty. However, a new RPS law went into effect in December 2011 which modified, among other things, the prior RPS requirement based upon annual procurement targets to multi-year procurement targets. Under the new RPS law, BVES must procure sufficient RPS-eligible resources to meet (i) any RPS procurement requirement deficit for any year prior to 2011, and (ii) RPS procurement requirements for the 2011 2013 compliance period by no later than December 31, 2013. BVES first RPS report under the new law was submitted to the CPUC on March 1, 2012 and it did not reflect any RPS procurement deficiencies nor any potential or actual penalties. Accordingly, no provision for loss has been recorded in the financial statements as of June 30, 2012.

In September 2009, GSWC negotiated a ten-year contract with the Los Angeles County Sanitation District (LACSD) to purchase renewable energy created from landfill gas. In February 2011, LACSD notified GSWC that it intended to shut down the landfill gas generator. In August 2011, GSWC and LACSD negotiated a settlement to resolve a dispute between the parties regarding certain terms of the contract. Under the terms of the settlement, GSWC agreed to waive its right to a 14 month termination notice and LACSD agreed to sell renewable energy credits (RECs) to GSWC. In November 2011, GSWC filed for approval with the CPUC for the purchase of these RECs. In July 2012, the CPUC approved the purchase of these RECs, which BVES intends to apply towards either its pre-2011 renewable energy requirements or its 2011-2013 requirements. The REC s will be purchased for approximately $325,000 during the third quarter of 2012 and will be recorded as a cost of purchased power and included in the electric supply cost balancing account.

In June 2011, GSWC s BVES filed an application with the CPUC to recover $1.2 million in legal and outside service costs incurred during the period September 1, 2007 through March 31, 2011 in connection with seeking to procure renewable energy resources. In March 2012, the CPUC approved the application. Accordingly, a regulatory asset of $1.3 million, including accrued interest, was recorded in March 2012. A 12-month surcharge was implemented in May 2012 for recovery of these costs.

CPUC Subpoena

On June 27, 2011 GSWC executed a settlement agreement with the Division of Water and Audits (DWA) to resolve an investigation of certain work orders and charges paid to a specific contractor used previously by GSWC for numerous construction projects over a period of 14 years. On December 15, 2011, the CPUC approved the settlement agreement. The settlement provides for refunds to customers totaling $9.5 million to be made over a period of 12-36 months, as well as a reduction in rate-base and other rate adjustments totaling $3.0 million. As a result of the settlement, management does not expect future increases in the reserve related to this specific contractor. Refunds totaling $1.0 million and $1.2 million were made to customers during the three and six months ended June 30, 2012, respectively.

Table of Contents

Finally, as part of the settlement agreement, GSWC agreed to be subject to three separate independent audits of its procurement practices over a period of ten years from the date the settlement was approved by the CPUC. The audits will cover GSWC s procurement practices from 1994 forward and could result in further disallowances of costs. The cost of the audits will be borne by shareholders and may not be recovered by GSWC in rates to customers. At this time, management cannot predict the outcome of these audits or determine the estimated loss or range of loss, if any, resulting from these audits.

Note 3 Earnings per Share/Capital Stock:

In accordance with the accounting guidance for participating securities and earnings per share (EPS), AWR uses the two-class method of computing EPS. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security. AWR has participating securities related to stock options and restricted stock units that earn dividend equivalents on an equal basis with AWR s Common Shares (the Common Shares) that have been issued under AWR s 2000 Stock Incentive Plan and 2008 Stock Incentive Plan (the 2000 and 2008 Employee Plans) and the 2003 Non-Employee Directors Plan (the 2003 Directors Plan). In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities.

The following is a reconciliation of AWR s net income and weighted average Common Shares outstanding for calculating basic net income per share:

Basic **(in thousands, except per share amounts)**		**For The Three Months Ended June 30,**				**For The Six Months Ended June 30,**			
			2012		**2011**		**2012**		**2011**
Net income from continuing operations		$	15,078	$	12,728	$	25,193	$	19,683
Net income from discontinued operations					3,234				3,868
Total net income			15,078		15,962		25,193		23,551
Less: (a)	Distributed earnings to common shareholders		5,287		5,227		10,560		10,075
	Distributed earnings to participating securities		38		36		68		64
Undistributed earnings			9,753		10,699		14,565		13,412
(b)	Undistributed earnings allocated to common shareholders		9,683		10,625		14,472		13,327
	Undistributed earnings allocated to participating securities		70		74		93		85
Total income available to common shareholders, basic (a)+(b)		$	14,970	$	15,852	$	25,032	$	23,402
Weighted average Common Shares outstanding, basic			18,882		18,668		18,857		18,658
Basic earnings per Common Share:									
Income from continuing operations		$	0.79	$	0.68	$	1.33	$	1.05
Income from discontinued operations					0.17				0.20
Net Income		$	0.79	$	0.85	$	1.33	$	1.25

Diluted EPS is based upon the weighted average number of Common Shares, including both outstanding shares and shares potentially issuable in connection with stock options granted under Registrant s 2000 and 2008 Employee Plans, and the 2003 Directors Plan, and net income. At June 30, 2012 and 2011, there were 519,273 and 708,345 options outstanding, respectively, under these Plans. At June 30, 2012 and 2011, there were also 147,109 and 135,611 restricted stock units outstanding, respectively.

Table of Contents

The following is a reconciliation of AWR s net income and weighted average Common Shares outstanding for calculating diluted net income per share:

Diluted (in thousands, except per share amounts)	For The Three Months Ended June 30, 2012	2011	For The Six Months Ended June 30, 2012	2011
Common shareholders earnings, basic	$ 14,970	$ 15,852	$ 25,032	$ 23,402
Undistributed earnings for dilutive stock options		74	93	85
Total common shareholders earnings, diluted	$ 14,970	$ 15,926	$ 25,125	$ 23,487
Weighted average common shares outstanding, basic	18,882	18,668	18,857	18,658
Stock-based compensation (1)	63	70	131	139
Weighted average common shares outstanding, diluted	18,945	18,738	18,988	18,797
Diluted earnings per Common Share:				
Income from continuing operations	$ 0.79	$ 0.68	$ 1.32	$ 1.05
Income from discontinued operations		0.17		0.20
Net Income	$ 0.79	$ 0.85	$ 1.32	$ 1.25

(1) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS, 410,760 and 465,824 stock options at June 30, 2012 and 2011, respectively, were deemed to be outstanding in accordance with accounting guidance on earnings per share. All of the 147,109 and 135,611 restricted stock units at June 30, 2012 and 2011, respectively, were included in the calculation of diluted EPS for the six months ended June 30, 2012 and 2011.

Stock options of 108,013 and 241,921 were outstanding at June 30, 2012 and 2011, respectively, but not included in the computation of diluted EPS because the related option exercise price was greater than the average market price of AWR s Common Shares for the six months ended June 30, 2012 and 2011. Stock options of 500 and 600 were outstanding at June 30, 2012 and 2011, respectively, but not included in the computation of diluted EPS because they were anti-dilutive.

During the six months ended June 30, 2012 and 2011, AWR issued 131,581 and 49,456 Common Shares, for approximately $2,748,000 and $953,000, respectively, under AWR s Common Share Purchase and Dividend Reinvestment Plan, the 401(k) Plan, the 2000 and 2008 Employee Plans, and the 2003 Directors Plan. In addition, Registrant purchased 408,962 and 159,383 Common Shares on the open market during the six months ended June 30, 2012 and 2011, respectively, under Registrant s 401(k) Plan and the Common Share Purchase and Dividend Reinvestment Plan. The Common Shares purchased by Registrant were used to satisfy the requirements of these plans.

During the three months ended June 30, 2012 and 2011, AWR paid quarterly dividends of approximately $5.3 million, or $0.28 per share, and $5.2 million, or $0.28 per share, respectively. During the six months ended June 30, 2012 and 2011, AWR paid quarterly dividends to shareholders of approximately $10.6 million, or $0.56 per share, and $10.1 million, or $0.54 per share.

Note 4 Derivative Instruments:

GSWC purchases certain power at a fixed cost depending on the amount of power and the period during which the power is purchased under a purchased power contract. The contract is subject to the accounting guidance for derivatives and requires mark-to-market derivative accounting. The CPUC has authorized GSWC to establish a regulatory asset and liability memorandum account to offset the entries required by the accounting guidance. Accordingly, all unrealized gains and losses generated from the purchased power contract are deferred on a monthly basis into a non-interest bearing regulatory memorandum account that tracks the changes in fair value of the derivative throughout the term of the contract, having no impact on GSWC s earnings. Upon expiration of the purchased power contract, the balance in this regulatory memorandum account will be zero.

As of June 30, 2012 there was a $5.2 million cumulative unrealized loss which has been included in the memorandum account.

Table of Contents

On January 12, 2012, GSWC executed a new purchased power master agreement. The agreement is subject to CPUC approval. If approved, GSWC will be able to purchase 12 megawatts (MWs) of base load energy at a fixed price to be negotiated upon CPUC approval of the agreement. GSWC plans to file for approval of the agreement with the CPUC in 2012. GSWC also intends to request CPUC approval of a regulatory asset and liability memorandum account for the new contract to offset the entries required by the accounting guidance on derivatives.

The accounting guidance for fair value measurements applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. Under the accounting guidance, GSWC makes fair value measurements that are classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability, or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Registrant s valuation model utilizes various inputs that include quoted market prices for energy over the duration of the contract. The market prices used to determine the fair value for this derivative instrument were estimated based on independent sources such as broker quotes and publications that are not observable in or corroborated by the market. Registrant receives one broker quote to determine the fair value of its derivative instrument. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Accordingly, the valuation of the derivative on Registrant s purchased power contract has been classified as Level 3 for all periods presented.

The following table presents changes in the fair value of the derivative for the three and six months ended June 30, 2012 and 2011.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(dollars in thousands)	**2012**	**2011**	**2012**	**2011**
Balance, at beginning of the period	$ (7,506)	$ (6,874)	$ (7,611)	$ (6,850)
Unrealized gain (loss) on purchased power contracts	2,330	(601)	2,435	(625)
Balance, at end of the period	$ (5,176)	$ (7,475)	$ (5,176)	$ (7,475)

Note 5 Fair Value of Financial Instruments:

For cash and cash equivalents, accounts receivable, accounts payable and short-term debt, the carrying amount is assumed to approximate fair value due to the short-term nature of the amounts. The table below estimates the fair value of long-term debt held by GSWC. Rates available to GSWC at June 30, 2012 and December 31, 2011 for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt. The interest rates used for the June 30, 2012 valuation increased as compared to December, 31, 2011, reducing the fair value of long-term debt as of June 30, 2012. Changes in the assumptions will produce differing results.

	June 30, 2012		December 31, 2011	
(dollars in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities:				
Long-term debt GSWC	$ 341,718	$ 421,093	$ 340,686	$ 437,275

As previously discussed in Note 4, the accounting guidance for fair value measurements establishes a framework for measuring fair value and requires fair value measurements to be classified and disclosed in one of three levels. The following tables set forth by level, within the fair value hierarchy, GSWC s long-term debt measured at fair value as of June 30, 2012:

(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Long-term debt GSWC	$ 262,742	$ 158,351		$ 421,093

Table of Contents

Note 6 Income Taxes:

As a regulated utility, GSWC treats certain temporary differences as flow-through adjustments in computing its income tax provision consistent with the income tax approach approved by the CPUC for ratemaking purposes. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase occurring in another period. Giving effect to these temporary differences as flow-through adjustments typically results in a greater variance between the effective tax rate (ETR) and the statutory federal income tax rate in any given period than would otherwise exist if GSWC were not required to account for its income taxes as a regulated enterprise. The GSWC ETRs deviated from the statutory rate primarily due to state taxes and differences 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).

Changes in Tax Law

The Tax Relief Acts extended bonus depreciation for qualifying property through 2012. As a result, Registrant s current tax expense for 2011 and 2012 reflects benefits from the Tax Relief Acts. Although these law changes reduce AWR s current taxes payable, they do not reduce its total income tax expense or ETR.

Note 7 Employee Benefit Plans:

The components of net periodic benefit costs, before allocation to the overhead pool, for Registrant s pension plan, postretirement plan, and Supplemental Executive Retirement Plan (SERP) for the three and six months ended June 30, 2012 and 2011 are as follows:

	For The Three Months Ended June 30,					
	Pension Benefits		**Other Postretirement Benefits**		**SERP**	
(dollars in thousands)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Components of Net Periodic Benefits Cost:						
Service cost	$ 1,618	$ 1,429	$ 112	$ 107	$ 183	$ 150
Interest cost	1,653	1,639	136	153	122	116
Expected return on plan assets	(1,635)	(1,588)	(90)	(74)		
Amortization of transition			105	105		
Amortization of prior service cost (benefit)	29	30	(50)	(50)	40	40
Amortization of actuarial loss	740	322			77	34
Net periodic pension cost under accounting standards	2,405	1,832	213	241	422	340
Regulatory adjustment deferred **(1)**	(632)	(161)				
Total expense recognized, before allocation to overhead pool	$ 1,773	$ 1,671	$ 213	$ 241	$ 422	$ 340

	For The Six Months Ended June 30,		
	Pension Benefits		**SERP**

(dollars in thousands)	2012	2011	Other Postretirement Benefits 2012	2011	2012	2011
Components of Net Periodic Benefits Cost:						
Service cost	$ 3,337	$ 2,812	$ 224	$ 214	$ 366	$ 300
Interest cost	3,329	3,262	272	306	244	232
Expected return on plan assets	(3,271)	(3,174)	(180)	(147)		
Amortization of transition			210	210		
Amortization of prior service cost (benefit)	59	59	(100)	(100)	80	81
Amortization of actuarial loss	1,518	621			154	67
Net periodic pension cost under accounting standards	4,972	3,580	426	483	844	680
Regulatory adjustment deferred **(1)**	(1,198)	(253)				
Total expense recognized, before allocation to overhead pool	$ 3,774	$ 3,327	$ 426	$ 483	$ 844	$ 680

(1) Regulatory Adjustment - In November 2010, the CPUC authorized GSWC to establish a two-way balancing account, effective January 1, 2010, for all of its water regions and the general office to track differences between the forecasted annual pension expenses adopted in rates for 2010, 2011 and 2012 and the actual annual expense to be recorded by GSWC in accordance with the accounting guidance for pension costs. As of June 30, 2012, GSWC has included a $3.1 million under-collection in the two-way pension balancing account recorded as a regulatory asset (Note 2).

Table of Contents

Registrant expects to contribute approximately $6.1 million and $500,000 to the pension and postretirement medical plans in 2012, respectively. A contribution of $1.8 million was made to the pension plan during the three and six months ended June 30, 2012.

Note 8 Contingencies:

***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 responsible for the contamination of two of GSWC s wells and those of the other affected water purveyors. In response to the filing of the lawsuit, the Potentially Responsible Party (PRP) defendants filed motions to dismiss the suit or strike certain portions of the suit. The judge issued a ruling on April 1, 2003 granting in part and denying in part the PRP s motions. A key ruling of the court was that the water purveyors, including GSWC, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). GSWC has amended its suit to claim certain affirmative defenses as an innocent party under CERCLA. GSWC is presently unable to estimate a range of loss, if any, in the event that GSWC is deemed to be a PRP, or on GSWC s ability to fully recover from the PRPs, past and future costs associated with the treatment of these wells. On August 29, 2003, the US Environmental Protection Agency (EPA) issued Unilateral Administrative Orders (UAO) against 41 parties deemed responsible for polluting the groundwater in portions of the San Gabriel Valley from which those impacted GSWC wells draw water. GSWC was not named as a party to the UAO. The UAO requires these parties to remediate the contamination.

On October 12, 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. EPA has also conducted settlement discussions with several PRPs regarding the UAO. The Water Entities and EPA have worked closely to coordinate their settlement discussions under the auspices of the special master in order to arrive at a complete resolution of all issues affecting the lawsuit and the UAO. Settlements have been reached with a majority of the PRPs.

On March 28, 2011, the Court lifted the stay and the matter has proceeded in litigation. The EPA filed a separate complaint against the remaining PRPs and this matter was consolidated with those filed by the Water Entities. Since October 17, 2011 several 30-day stays were granted to continue settlement discussions. During these 30-day stays, EPA and the Water Entities have successfully reached settlements with most of the remaining PRPs. On January 15, 2012, the stay was lifted and the case entered the discovery phase as settlement negotiations with the remaining few PRPs continued. Registrant believes it will reach settlements with all the PRPs. However, Registrant is presently unable to predict the ultimate outcome of this matter.

***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. On January 5, 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. On June 27, 2012, Claremont notified GSWC of its intent to appraise the value of GSWC s water system serving Claremont. GSWC serves approximately 11,000 customers in Claremont.

The Town of Apple Valley (the Town) had abandoned its activities related to a potential condemnation of GSWC s water system serving the Town in 2007. However, in January 2011, the Town Council directed staff to update the previously prepared financial feasibility study for the acquisition of GSWC s water systems. The Town also created a Blue Ribbon Water Commission (BRWC) to provide recommendations on the items pending before the CPUC associated with the water companies (including GSWC) serving the Town. The BRWC recommended against acquisition at this time based on current economic conditions. The Town has not yet made a decision based on the recommendation. GSWC s Apple Valley water systems serve approximately 2,900 customers.

Table of Contents

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 on April 26, 2011. In May 2011, Ojai FLOW submitted a petition with over 1,800 signatures to the Casitas Municipal Water District supporting the recommended acquisition of GSWC s Ojai water system. On July 25, 2012, the Casitas Municipal Water District 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. GSWC serves approximately 3,000 customers in Ojai.

Except for the City of Claremont, Town of Apple Valley 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.

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 Santa Maria Valley Conservation District. 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. In the unlikely case that 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.

On February 11, 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. On March 20, 2008, the non-stipulating parties filed notices of appeal. In August 2010, the appellants filed their opening briefs. Registrant is unable to predict the outcome of the appeal.

Environmental Clean-Up and Remediation:

Chadron Plant: GSWC has been involved in environmental remediation and clean-up at a plant site (Chadron Plant) that contained an underground storage tank which was used to store gasoline for its vehicles. This tank was removed in July 1990 along with the dispenser and ancillary piping. Since then, GSWC has been involved in various remediation activities at this site. Recent site assessments have been conducted which showed that there was more gasoline at higher concentrations spread over a larger area than previously measured. Remediation is estimated to take two more years, followed by at least one year of monitoring and reporting. As of June 30, 2012, the total spent to clean-up and remediate GSWC s plant facility was approximately $3.5 million, of which $1.5 million has been paid by the State of California Underground Storage Tank Fund. Amounts paid by GSWC have been included in rate-base and approved by the CPUC for recovery.

As of June 30, 2012, GSWC has an accrued liability for the estimated additional cost of $1.2 million to complete the clean-up at the site. The ultimate cost may vary as there are many unknowns in remediation of underground gasoline spills and this is an estimate based on currently available information. Management also believes it is probable that the estimated additional costs will be approved in rate base by the CPUC and has recorded a corresponding regulatory asset.

Table of Contents

***Other Litigation*:**

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

Note 9 Discontinued Operations:

On May 31, 2011, AWR sold CCWC to EPCOR Water (USA) Inc. for a total purchase price of $35.2 million, including the assumption of approximately $5.6 million of long-term debt. AWR received approximately $29.6 million in cash, which was used primarily to pay down short-term borrowings. The completion of the sale generated a gain (net of taxes and transaction costs) of approximately $2.2 million during 2011. A summary of discontinued operations presented in the consolidated statements of income for the three and six months ended June 30, 2011 are as follows:

Operating revenues	$	1,571	$	3,492
Operating expenses		(131)		660
Operating income		1,702		2,832
Interest expense, net		(59)		(142)
Income before income taxes		1,643		2,690
Income tax expense		670		1,078
Income from the operations, net of tax		973		1,612
Gain on sale of business, net of tax		2,454		2,454
Transaction costs, net of tax		(193)		(198)
Net gain on sale		2,261		2,256
Income from discontinued operations **(1)**	$	3,234	$	3,868

(1) Corporate overhead costs allocated to CCWC have been excluded from discontinued operations and have been included in other operating expenses and administrative and general expenses as part of continuing operations as they continue to be incurred, primarily at GSWC.

Table of Contents

Note 10 Business Segments

AWR has three reportable segments, water, electric and contracted services, whereas GSWC has two segments, water and electric. Within the segments, AWR has two continuing principal business units: water and electric service utility operations conducted through GSWC, and one contracted services unit conducted through ASUS and its subsidiaries. All activities of GSWC are geographically located within California. The operating activities of CCWC have been included in discontinued operations as described in Note 9. All activities of CCWC were located in the state of Arizona. GSWC is, and CCWC was, a rate-regulated utility. AWR has no material assets other than its investments in its subsidiaries on a stand-alone basis.

Activities of ASUS and its subsidiaries are conducted in California, Maryland, southeast New Mexico, North Carolina, South Carolina, Texas, and Virginia. Each of ASUS s wholly owned subsidiaries is regulated by the state in which the subsidiary primarily conducts water and/or wastewater operations. Fees charged for operation and maintenance, and renewal and replacement services are based upon the terms of the contracts with the U.S. government which have been filed with the commissions in the states in which ASUS s subsidiaries are incorporated.

The tables below set forth information relating to GSWC s operating segments, ASUS and its subsidiaries, and other matters. Certain assets, revenues and expenses have been allocated in the amounts set forth. The identifiable assets are net of respective accumulated provisions for depreciation. Capital additions reflect capital expenditures paid in cash and exclude property installed by developers and conveyed to GSWC and through May 31, 2011 for CCWC.

	As Of And For The Three Months Ended June 30, 2012				
	GSWC		ASUS	AWR	Consolidated
(dollars in thousands)	**Water**	**Electric**	**Contracts**	**Parent**	**AWR**
Operating revenues	$ 80,886	$ 8,373	$ 25,052	$	$ 114,311
Operating income (loss)	22,666	1,484	5,989	(14)	30,125
Interest expense, net	4,815	396	40	(26)	5,225
Identifiable assets	855,742	39,541	4,726		900,009
Depreciation and amortization expense	9,525	597	285		10,407
Capital additions	13,544	705	231		14,480

	As Of And For The Three Months Ended June 30, 2011					
	GSWC		CCWC	ASUS	AWR	Consolidated
(dollars in thousands)	**Water**	**Electric**	**Water**	**Contracts**	**Parent**	**AWR**
Operating revenues	$ 80,151	$ 7,710	$	$ 21,968	$	$ 109,829
Operating income (loss) **(1)**	23,470	1,241	(106)	4,537	(3)	29,139
Interest expense, net	6,091	439		141	37	6,708
Identifiable assets	841,318	37,939		3,736		882,993
Depreciation and amortization expense	8,874	447		217		9,538
Income from discontinued operations, net of tax **(2)**			973		2,261	3,234
Capital additions	18,873	1,020		102		19,995

[redacted]					
Operating revenues	$ 146,843	$ 19,186	$ 54,930	$	$ 220,959
[redacted]					
Interest expense, net	10,221	789	94	(24)	11,080
[redacted]					
Depreciation and amortization expense	19,122	1,220	555		20,897
[redacted]					

Table of Contents

[redacted]						
Operating revenues	$ 144,477	$ 18,434	$	$ 41,225	$	$ 204,136
[redacted]						
Interest expense, net	11,192	816		225	82	12,315
[redacted]						
Depreciation and amortization expense	17,830	1,007		438		19,275
[redacted]						
Capital additions	35,086	1,629		580		37,295

---

(1) Operating income (loss) include CCWC s allocated corporate overhead costs that are now primarily at GSWC.

(2) In accordance with the accounting guidance relating to assets held for sale, Registrant did not record depreciation expense for CCWC in 2011.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

General

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, CCWC. 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 margins and related percentages as important measures in evaluating its operating results. Registrant believes these measures are useful internal benchmarks 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 its 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 its operating budget as approved. 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 gross 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 its 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. 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.

All of the current operation and maintenance contracts with the U.S. government are 50-year firm, fixed-price contracts with prospective price redeterminations. Additional revenues generated by contract operations are primarily dependent on new construction activities under contract modifications. As a result, ASUS is subject to risks that are different than those of GSWC.

Some of the factors that affect Registrant s financial performance are described in Item 1. Financial Statements, Forward-Looking Statements.

Summary of Second Quarter Results by Segment

The table below sets forth the second quarter diluted earnings per share by business segment from continuing operations:

	Diluted Earnings per Share 3 Months Ended		
	6/30/2012	6/30/2011	CHANGE
Water	$ 0.56	$ 0.51	$ 0.05
Electric	0.04	0.03	0.01
Contracted services	0.19	0.14	0.05
Totals from continuing operations, as reported	$ 0.79	$ 0.68	$ 0.11

Table of Contents

For the three months ended June 30, 2012, diluted earnings per share from water operations increased $0.05 to $0.56 per share as compared to $0.51 per share for the three months ended June 30, 2011. Impacting the comparability of the two periods were the following items:

- An increase in the water gross margin of approximately $305,000, or $0.01 per share, during the three months ended June 30, 2012 as compared to the same period in 2011 due primarily to CPUC-approved third year rate increases for Regions II and III effective January 1, 2012. It is also worth noting that 2012 is the last year of a rate case cycle for all of GSWC s water regions, since rate increases are typically lowest in the final year of a rate case cycle.

- An increase in operating expenses (other than supply costs) by approximately $1.0 million, or $0.03 per share, due primarily to increases in: (i) other operation expenses of $306,000 due to higher labor and other employee benefits, and conservation costs, and (ii) depreciation expense of $651,000 resulting from additions to utility plant.

- An overall decrease in interest expense (net of interest income) of $1.3 million, or $0.04 per share, due primarily to lower short-term bank borrowings and the recording of a $381,000 reduction in interest expense in connection with the CPUC s final decision on the water cost of capital proceeding, as further discussed under the *Regulatory Matters* section. In addition, included in the three months ended June 30, 2011 results were interest charges totaling $553,000 related to the redemption of $22.0 million of GSWC s 7.65% Medium-Term Notes, which did not recur in 2012.

- A decrease in the effective tax rate increased earnings by approximately $0.03 per share during the second quarter of 2012 primarily resulting from changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements, and changes in certain permanent items.

For the three months ended June 30, 2012, diluted earnings from electric operations were $0.04 per share as compared to $0.03 per share for the same period of 2011. An increase in the electric gross margin of $492,000, or $0.02 per share, as compared to the same period in 2011, was partially offset by a $249,000, or $0.01 per share increase in operating expenses.

For the three months ended June 30, 2012, diluted earnings from contracted services increased by $0.05 per share as compared to the same period in 2011 due primarily to an increase in construction activities at Fort Bragg in North Carolina. There was a receipt of a contract modification and revisions in cost estimates during the second quarter of 2012 for Fort Bragg, which resulted in additional pretax operating income of $820,000. These increases were partially offset by a $2.9 million increase in pretax operating income recorded during the second quarter of 2011 due to a change in estimated costs related to a pipeline project at Fort Bragg.

The tables below set forth summaries of the second quarter results of continuing operations by business segment (dollars in thousands):

	Operating Revenues		Pretax Operating Income	
	3 Months	**3 Months**	**3 Months**	**3 Months**

	Ended 6/30/2012	Ended 6/30/2011	$ CHANGE	% CHANGE	Ended 6/30/2012	Ended 6/30/2011	$ CHANGE	% CHANGE
Water	$ 80,886	$ 80,151	$ 735	0.9%	$ 22,666	$ 23,364	$ (698)	-3.0%
Electric	8,373	7,710	663	8.6%	1,484	1,241	243	19.6%
Contracted services	25,052	21,968	3,084	14.0%	5,989	4,537	1,452	32.0%
AWR (parent)					(14)	(3)	(11)	366.7%
Totals from continuing operations	$ 114,311	$ 109,829	$ 4,482	4.1%	$ 30,125	$ 29,139	$ 986	3.4%

Discontinued Operations:

Net income from discontinued operations for the three months ended June 30, 2011 was $3.2 million, due primarily to the gain on sale of CCWC of $2.3 million, net of taxes and transaction costs, or $0.12 per share. Excluding the gain on sale, there was also net income of $0.9 million from CCWC s operations for the two months of operations during the three months ended June 30, 2011.

Table of Contents

Summary of Year-to-Date Results by Segment

The table below sets forth the year-to-date diluted earnings per share by business segment from continuing operations, as reported:

	Diluted Earnings per Share 6 Months Ended					
	6/30/2012		6/30/2011		CHANGE	
Water	$	0.83	$	0.80	$	0.03
Electric		0.15		0.07		0.08
Contracted services		0.34		0.18		0.16
Totals from continuing operations	$	1.32	$	1.05	$	0.27

For the six months ended June 30, 2012, diluted earnings per share contributed by the water segment were $0.83 per share as compared to $0.80 per share for the same period in 2011. Once again, it is worth noting that 2012 is the last year of a rate case cycle for all of GSWC s water regions. The significant items in the water segment between the two periods were:

- An increase in the water gross margin of $2.1 million, or $0.07 per share, during the six months ended June 30, 2012 primarily as the result of CPUC-approved third year rate increases for Regions II and III effective January 1, 2012.

- An increase in operating expenses (other than supply costs) by approximately $2.8 million, or $0.09 per share, due primarily to increases in: (i) other operation expenses of $1.2 million due in large part to higher labor and other employee benefits, conservation costs and bad debt expense, and (ii) depreciation expense of $1.3 million resulting from additions to utility plant.

- An overall decrease in interest expense (net of interest income) of approximately $1.0 million, or $0.03 per share, primarily due to interest costs totaling $553,000 incurred in 2011 related to the redemption of $22.0 million of GSWC s 7.65% Medium-Term Notes. In addition, in June 2012 GSWC recorded a reduction in interest expense totaling $381,000 to reflect the CPUC s final decision on the water cost of capital proceeding, as further discussed under the *Regulatory Matters* section.

- A decrease in the effective income tax rate during the six months ended June 30, 2012 as compared to the same period in 2011, increasing earnings by approximately $0.02 per share primarily resulting from changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements, and changes in certain permanent items.

For the six months ended June 30, 2012, diluted earnings from electric operations increased by $0.08 per share as compared to the same period in 2011 due, in large part, to the CPUC s approval of GSWC s application to recover $1.2 million in legal and outside services costs incurred from September 2007 through March 2011 in connection with its efforts to procure renewable energy resources. As a result, in March 2012 GSWC recorded a $1.2 million, or $0.04 per share, reduction in legal and outside services costs which had previously been expensed as incurred. Excluding the impact of this item, electric earnings increased by $0.04 per share during the six months ended June 30, 2012 due primarily to an increase in the electric gross margin of $1.1 million, or $0.03 per share, as compared to the same period in 2011, and a decrease in the effective income tax rate increasing earnings by approximately $0.01 per share.

For the six months ended June 30, 2012, diluted earnings from contracted services increased by $0.16 per share as compared to the same period in 2011 due primarily to an increase in construction activities at Fort Bragg in North Carolina. There was significant progress made on a major water and wastewater pipeline replacement project as a result of better than expected weather conditions at Fort Bragg during the first several months of 2012. This project is estimated to be completed in early 2014. There was also a receipt of a contract modification and revisions in cost estimates during the second quarter of 2012 for Fort Bragg, which resulted in additional pretax operating income of $820,000. The increase in construction activities was partially offset by a $2.9 million increase in pretax operating income recorded during the second quarter of 2011 due to a change in estimated costs related to the pipeline project at Fort Bragg.

Table of Contents

The tables below set forth summaries of the year-to-date results by business segment of continuing operations (dollars in thousands):

	Operating Revenues				Pretax Operating Income			
	6 Months Ended 6/30/2012	6 Months Ended 6/30/2011	$ CHANGE	% CHANGE	6 Months Ended 6/30/2012	6 Months Ended 6/30/2011	$ CHANGE	% CHANGE
Water	$ 146,843	$ 144,477	$ 2,366	1.6%	$ 37,517	$ 38,212	$ (695)	-1.8%
Electric	19,186	18,434	752	4.1%	5,340	3,181	2,159	67.9%
Contracted services	54,930	41,225	13,705	33.2%	10,730	5,795	4,935	85.2%
AWR (parent)					(95)	(54)	(41)	75.9%
Totals from continuing operations	$ 220,959	$ 204,136	$ 16,823	8.2%	$ 53,492	$ 47,134	$ 6,358	13.5%

Discontinued Operations:

Net income from discontinued operations for the six months ended June 30, 2011 was $3.9 million, due primarily to the gain on sale of CCWC of $2.3 million, net of taxes and transaction costs, or $0.12 per share. Excluding the gain on sale, there was also net income of $1.6 million from CCWC s operations for the first five months of 2011.

The following discussion and analysis provides information on AWR s consolidated operations and where necessary, includes specific references to AWR s individual segments and/or other continuing subsidiaries: GSWC and ASUS and its subsidiaries, and the discontinued operations of CCWC.

Table of Contents

Consolidated Results of Operations Three Months Ended June 30, 2012 and 2011 (dollars in thousands, except per share amounts):

	3 Months Ended 6/30/2012	3 Months Ended 6/30/2011	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 80,886	$ 80,151	$ 735	0.9%
Electric	8,373	7,710	663	8.6%
Contracted services	25,052	21,968	3,084	14.0%
Total operating revenues	114,311	109,829	4,482	4.1%
OPERATING EXPENSES				
Water purchased	13,831	12,924	907	7.0%
Power purchased for pumping	2,019	2,165	(146)	-6.7%
Groundwater production assessment	3,982	3,886	96	2.5%
Power purchased for resale	2,680	2,854	(174)	-6.1%
Supply cost balancing accounts	4,163	4,245	(82)	-1.9%
Other operation expenses	6,851	6,946	(95)	-1.4%
Administrative and general expenses	17,792	17,740	52	0.3%
Depreciation and amortization	10,407	9,538	869	9.1%
Maintenance	3,852	4,623	(771)	-16.7%
Property and other taxes	3,716	3,406	310	9.1%
ASUS construction expenses	14,896	12,491	2,405	19.3%
Net gain on sale of property	(3)	(128)	125	-97.7%
Total operating expenses	84,186	80,690	3,496	4.3%
OPERATING INCOME	30,125	29,139	986	3.4%
OTHER INCOME AND EXPENSES				
Interest expense	(5,720)	(6,869)	1,149	-16.7%
Interest income	495	161	334	207.5%
Other	(13)	(289)	276	-95.5%
	(5,238)	(6,997)	1,759	-25.1%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	24,887	22,142	2,745	12.4%
Income tax expense	9,809	9,414	395	4.2%
INCOME FROM CONTINUING OPERATIONS	15,078	12,728	2,350	18.5%
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX		3,234	(3,234)	-100.0%
NET INCOME	$ 15,078	$ 15,962	$ (884)	-5.5%
Basic earnings from continuing operations	$ 0.79	$ 0.68	$ 0.11	16.2%
Basic earnings from discontinued operations		0.17	(0.17)	-100.0%
	$ 0.79	$ 0.85	$ (0.06)	-7.1%
Diluted earnings from continuing operations	$ 0.79	$ 0.68	$ 0.11	16.2%
Diluted earnings from discontinued operations		0.17	(0.17)	-100.0%
	$ 0.79	$ 0.85	$ (0.06)	-7.1%

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 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   earnings are also impacted by additional construction projects at each of the Military Utility Privatization Subsidiaries.

Water

For the three months ended June 30, 2012, revenues from water operations increased to $80.9 million, as compared to $80.2 million for the three months ended June 30, 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.

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 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 and the CPUC   s Division of Ratepayer Advocates in connection with this GRC.

GSWC   s billed customer water usage increased by approximately 5% as compared to the second quarter of 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 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.

Electric

For the three months ended June 30, 2012, revenues from electric operations increased to $8.4 million compared to $7.7 million for the same period in 2011 due to increases in electric base rates approved by the CPUC effective January 1, 2012. There was also an increase in electric supply costs of $171,000 during the three months ended June 30, 2012, which resulted in a corresponding increase in electric revenues.

Billed electric usage increased by 5.6% during the three months ended June 30, 2012 as compared to the three months ended June 30, 2011. Due to the CPUC-approved Base Revenue Requirement Adjustment Mechanism, which adjusts certain revenues to adopted levels authorized by the CPUC, changes in usage did not have a significant impact on earnings.

Contracted Services

Revenues from contracted services are composed 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 three months ended June 30, 2012, revenues from contracted services increased by $3.1 million, or 14%, to $25.1 million as compared to $22.0 million for the three months ended June 30, 2011, due primarily to an increase in construction activities at Fort Bragg in North Carolina related to various projects, including a major water and wastewater pipeline replacement project. This project is estimated to be completed in early 2014. The increase in construction activities 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 pipeline project at Fort Bragg. Contracted services continues to receive U.S. government awarded contract modifications and agreements with third-party prime contractors for new construction projects at the Military Utility Privatization Subsidiaries. The majority of the current new construction activity is expected to be performed during the next twelve months. Earnings and cash flows from amendments and modifications to the original 50-year contracts with the U.S. government and agreements with third-party prime contractors for additional construction projects 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, purchased power for pumping, groundwater production assessments and water supply cost balancing accounts. Supply costs for the electric segment consist of purchased power for resale (including the cost of natural gas used by BVES generating unit) 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 31.7% and 32.3% of total operating expenses for the three months ended June 30, 2012 and 2011, respectively.

The table below provides the amount of increases (decreases), percent changes in supply costs, and gross margins during the three months ended June 30, 2012 and 2011 (dollars in thousands):

		3 Months Ended 6/30/2012		**3 Months Ended 6/30/2011**		**$ CHANGE**	**% CHANGE**
WATER OPERATING REVENUES **(1)**	$	80,886	$	80,151	$	735	0.9%
WATER SUPPLY COSTS:							
Water purchased **(1)**	$	13,831	$	12,924	$	907	7.0%
Power purchased for pumping **(1)**		2,019		2,165		(146)	-6.7%
Groundwater production assessment **(1)**		3,982		3,886		96	2.5%
Water supply cost balancing accounts **(1)**		3,587		4,014		(427)	-10.6%
TOTAL WATER SUPPLY COSTS	$	23,419	$	22,989	$	430	1.9%
WATER GROSS MARGIN **(2)**	$	57,467	$	57,162	$	305	0.5%
PERCENT MARGIN - WATER		71.0%		71.3%			
ELECTRIC OPERATING REVENUES **(1)**	$	8,373	$	7,710	$	663	8.6%
ELECTRIC SUPPLY COSTS:							
Power purchased for resale **(1)**	$	2,680	$	2,854	$	(174)	-6.1%
Electric supply cost balancing accounts **(1)**		576		231		345	149.4%
TOTAL ELECTRIC SUPPLY COSTS	$	3,256	$	3,085	$	171	5.5%
ELECTRIC GROSS MARGIN **(2)**	$	5,117	$	4,625	$	492	10.6%
PERCENT MARGIN - ELECTRIC		61.1%		60.0%			

(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 are shown on AWR s Consolidated Statements of Income and totaled $4,163,000 and

$4,245,000 for the three months ended June 30, 2012 and 2011, respectively.

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

Table of Contents

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 purchased water, purchased power, and pump tax expenses. GSWC recovers from or refunds to customers the amount of such variances. GSWC tracks these variances individually for each water ratemaking area.

For the three months ended June 30, 2012, 35.0% of GSWC s water supply mix was purchased as compared to 35.7% purchased for the three months ended June 30, 2011. However, as noted above, the implementation of the MCBA for GSWC s water regions eliminates the effects of changes in the water supply mix on earnings. The overall adopted percentages of purchased water for the three months ended June 30, 2012 was approximately 42.7% as compared to overall actual purchased water of 35.0%. The overall water margin percent was 71.0% in the second quarter of 2012 as compared to 71.3% in the same period of 2011.

Purchased water costs for the three months ended June 30, 2012 increased to $13.8 million as compared to $12.9 million in the same period of 2011. This increase was primarily due to higher water rates charged by wholesale suppliers, an increase in the amount of water purchased in Region I, and an increase in customer water consumption.

For the three months ended June 30, 2012, power purchased for pumping decreased to $2.0 million as compared to $2.2 million for the second quarter of 2011. This was primarily due to lower electric supply rates and improved energy efficiency at GSWC s pumping facilities.

A decrease of $427,000 in the water supply cost balancing account provision during the three months ended June 30, 2012 as compared to the same period in 2011 was primarily due to a higher than adopted purchased water supply mix in Region I, creating a decrease in the MCBA account as compared to the second quarter of 2011. In addition, certain surcharges related to supply cost balancing accounts expired in early 2012.

For the three months ended June 30, 2012, the cost of power purchased for resale to customers in GSWC s BVES division decreased to $2.7 million compared to $2.9 million for the same period in 2011. For the three months ended June 30, 2012, BVES purchased seasonal energy in the spot market at an average price of $28.15 per megawatt hour (MWh), as compared to an average price of $34.28 in the spot market for the same period of 2011. In addition to the spot market, BVES purchases power at $67.90 per MWh under an existing purchased power contract. The difference between the price of purchased power and $77 per MWh as authorized by the CPUC is reflected in the electric supply cost balancing account.

Other Operation Expenses

The primary components of other operation expenses for GSWC include payroll, materials and supplies, chemicals and water treatment costs, 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 three months ended June 30, 2012 and 2011, other operation expenses by segment consisted of the following (dollars in thousands):

	3 Months Ended 6/30/2012	3 Months Ended 6/30/2011	$ CHANGE	% CHANGE
Water Services	$ 5,600	$ 5,294	$ 306	5.8%
Electric Services	603	556	47	8.5%
Contracted Services	648	1,096	(448)	-40.9%
Total other operation expenses	$ 6,851	$ 6,946	$ (95)	-1.4%

For the three months ended June 30, 2012, other operation expenses for water services increased by $306,000 due primarily to an increase of $202,000 in costs related to conservation programs previously approved by the CPUC and included in rates. In addition, there were increases in labor and other employee related benefits of $199,000 and water treatment costs of $217,000. These increases were partially offset by a decrease in other miscellaneous operation expenses.

Table of Contents

Other operation expenses for contracted services decreased by $448,000 primarily due to an overall decrease in precontract costs during the three months ended June 30, 2012 as compared to the same period in 2011 due to a decrease in bidding related activities, particularly at Fort Bragg in North Carolina and Fort Bliss in Texas.

Administrative and General Expenses

Administrative and general expenses include payroll related to administrative and general functions, the related employee benefits charged to expense accounts, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company, and general corporate expenses. For the three months ended June 30, 2012 and 2011, administrative and general expenses by segment, including AWR (parent), consisted of the following (dollars in thousands):

	3 Months Ended 6/30/2012	3 Months Ended 6/30/2011	$ CHANGE	% CHANGE
Water Services	$ 13,359	$ 13,052	$ 307	2.4%
Electric Services	2,039	1,971	68	3.5%
Contracted Services	2,378	2,715	(337)	-12.4%
AWR (parent)	16	2	14	700.0%
Total administrative and general expenses	$ 17,792	$ 17,740	$ 52	0.3%

For the three months ended June 30, 2012, administrative and general expenses increased by $307,000 in water services compared to the three months ended June 30, 2011 due primarily to a $535,000 increase in labor costs and other employee related benefits, partially offset by decreases of $207,000 in legal and outside services costs and $21,000 of other miscellaneous administrative and general expenses.

For the three months ended June 30, 2012, administrative and general expenses for contracted services decreased by $337,000 due primarily to an increase in the allocation of overhead expenses to construction costs and a reduced allocation to administrative and general expenses as compared to the same period in 2011 as a result of increased construction activities primarily at Fort Bragg in North Carolina.

Depreciation and Amortization

For the three months ended June 30, 2012 and 2011 depreciation and amortization by segment consisted of the following (dollars in thousands):

	3 Months Ended 6/30/2012	3 Months Ended 6/30/2011	$ CHANGE	% CHANGE
Water Services	$ 9,525	$ 8,874	$ 651	7.3%
Electric Services	597	447	150	33.6%
Contracted Services	285	217	68	31.3%

Total depreciation and amortization	$ 10,407	$ 9,538	$ 869	9.1%

For the three months ended June 30, 2012, depreciation and amortization expense for water and electric services increased by $801,000 to $10.1 million compared to $9.3 million for the three months ended June 30, 2011 due to approximately $93.1 million of additions to utility plant during 2011. Registrant believes that depreciation expense related to property additions approved by the CPUC will be recovered through rates.

Table of Contents

Maintenance

For the three months ended June 30, 2012 and 2011, maintenance expense by segment consisted of the following (dollars in thousands):

	3 Months Ended 6/30/2012	3 Months Ended 6/30/2011	$ CHANGE	% CHANGE
Water Services	$ 3,173	$ 3,792	$ (619)	-16.3%
Electric Services	183	214	(31)	-14.5%
Contracted Services	496	617	(121)	-19.6%
Total maintenance	$ 3,852	$ 4,623	$ (771)	-16.7%

Maintenance expense for water services decreased by $619,000 due primarily to a decrease in planned and unplanned maintenance of Registrant s water facilities, particularly in Region II and Region III. Maintenance expenses are expected to increase in the second half of 2012 partially offsetting the lower second quarter costs.

Maintenance expense for contracted services decreased by $121,000 due primarily to a decrease in the need for maintenance of the Military Utility Privatization Subsidiaries facilities.

Property and Other Taxes

For the three months ended June 30, 2012 and 2011, property and other taxes by segment consisted of the following (dollars in thousands):

	3 Months Ended 6/30/2012	3 Months Ended 6/30/2011	$ CHANGE	% CHANGE
Water Services	$ 3,143	$ 2,916	$ 227	7.8%
Electric Services	212	197	15	7.6%
Contracted Services	361	293	68	23.2%
Total property and other taxes	$ 3,716	$ 3,406	$ 310	9.1%

Property and other taxes for water services increased by $227,000 for the three months ended June 30, 2012 due primarily to increases in property and payroll taxes.

ASUS Construction Expenses

For the three months ended June 30, 2012, construction expenses for contracted services were $14.9 million, increasing $2.4 million compared to the same period in 2011, due primarily to additional construction activity at Fort Bragg in North Carolina.

Table of Contents

Interest Expense

For the three months ended June 30, 2012 and 2011, interest expense by segment, including AWR (parent) consisted of the following (dollars in thousands):

	3 Months Ended 6/30/2012	3 Months Ended 6/30/2011	$ CHANGE	% CHANGE
Water Services	$ 5,273	$ 6,246	$ (973)	-15.6%
Electric Services	407	439	(32)	-7.3%
Contracted Services	40	143	(103)	-72.0%
AWR (parent)		41	(41)	-100.0%
Total interest expense	$ 5,720	$ 6,869	$ (1,149)	-16.7%

Overall, interest expense decreased by $1.1 million during the second quarter of 2012 as compared to the same period in 2011 due to costs totaling $553,000 incurred in connection with the redemption of $22.0 million of GSWC s 7.65% Medium-Term Notes during the second quarter of 2011. In addition, in 2012 GSWC recorded a $381,000 reduction to interest expense in connection with the CPUC s final decision on the water cost of capital proceeding, as further discussed under the *Regulatory Matters* section. Average bank loan balances outstanding under Registrant s revolving credit facility for the three months ended June 30, 2012 were approximately $352,000, as compared to an average of $30.0 million during the same period of 2011. The average interest rates on short-term borrowings for the three months ended June 30, 2012 and 2011 were approximately 1.5% and 1.4%, respectively.

Interest Income

For the three months ended June 30, 2012 and 2011, interest income by segment, including AWR (parent) consisted of the following (dollars in thousands):

	3 Months Ended 6/30/2012	3 Months Ended 6/30/2011	$ CHANGE	% CHANGE
Water Services	$ 458	$ 155	$ 303	195.5%
Electric Services	11		11	100.0%
Contracted Services		2	(2)	-100.0%
AWR (parent)	26	4	22	550.0%
Total interest income	$ 495	$ 161	$ 334	207.5%

Overall, interest income increased by $334,000 for the three months ended June 30, 2012 due primarily to changes in the settlement of refund claims currently under review by the Internal Revenue Service.

Other

For the three months ended June 30, 2011, Registrant recorded other expenses of $289,000 primarily related to a loss incurred on one of Registrant s investments. No similar loss was incurred in 2012.

Table of Contents

Income Tax Expense

For the three months ended June 30, 2012 and 2011, income tax expense by segment, including AWR (parent), consisted of the following (dollars in thousands):

		3 Months Ended 6/30/2012		3 Months Ended 6/30/2011		$ CHANGE	% CHANGE
Water Services	$	7,208	$	7,353	$	(145)	-2.0%
Electric Services		359		303		56	18.5%
Contracted Services		2,313		1,713		600	35.0%
AWR (parent)		(71)		45		(116)	-257.8%
Total income tax expense	$	9,809	$	9,414	$	395	4.2%

For the three months ended June 30, 2012, income tax expense for water and electric services decreased to $7.6 million compared to $7.7 million for the three months ended June 30, 2011 due primarily to a decrease in the effective tax rate, partially offset by an increase in pretax income. The effective tax rate (ETR   ) for GSWC was 40.0% for the three months ended June 30, 2012 as compared to 43.5% applicable to the three months ended June 30, 2011. The ETR deviates from the federal statutory rate primarily due to state taxes and differences 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.

For the three months ended June 30, 2012, income tax expense for contracted services increased to $2.3 million as compared to $1.7 million for the three months ended June 30, 2011 due to an increase in pretax income. The ETR was 38.9% and 39.0% for the three months ended June 30, 2012 and 2011, respectively.

Income from Discontinued Operations

Net income from discontinued operations for the three months ended June 30, 2011 was $3.2 million, due primarily to the gain on sale of CCWC of $2.3 million, net of taxes and transaction costs, or $0.12 per share, recorded in May 2011. Excluding the gain on sale, there was also net income of $974,000 from CCWC   s operations through the completion of the sale on May 31, 2011.

Table of Contents

Consolidated Results of Operations Six months ended June 30, 2012 and 2011 (dollars in thousands except per share amounts):

	6 Months Ended 6/30/2012	6 Months Ended 6/30/2011	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 146,843	$ 144,477	$ 2,366	1.6%
Electric	19,186	18,434	752	4.1%
Contracted services	54,930	41,225	13,705	33.2%
Total operating revenues	220,959	204,136	16,823	8.2%
OPERATING EXPENSES				
Water purchased	23,383	21,585	1,798	8.3%
Power purchased for pumping	3,575	3,701	(126)	-3.4%
Groundwater production assessment	7,305	6,512	793	12.2%
Power purchased for resale	5,871	6,729	(858)	-12.8%
Supply cost balancing accounts	7,600	9,324	(1,724)	-18.5%
Other operation expenses	14,277	13,863	414	3.0%
Administrative and general expenses	34,377	36,159	(1,782)	-4.9%
Depreciation and amortization	20,897	19,275	1,622	8.4%
Maintenance	7,183	8,349	(1,166)	-14.0%
Property and other taxes	7,821	6,958	863	12.4%
ASUS construction expenses	35,181	24,675	10,506	42.6%
Net gain on sale of property	(3)	(128)	125	-97.7%
Total operating expenses	167,467	157,002	10,465	6.7%