

AMERICAN STATES WATER CO

Form 10-Q/A

August 18, 2005

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A  
Amendment No. 1**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2005 or**

**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 East Foothill Boulevard, San Dimas

91773

(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**

**Southern California Water Company**

(Exact Name of Registrant as Specified in Its Charter)

California

95-1243678

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

630 East Foothill Boulevard, San Dimas

91773

(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)

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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  No

Southern California Water Company Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.).

American States Water Company Yes  No

Southern California Water Company Yes  No

As of August 5, 2005, the number of Common Shares outstanding, of American States Water Company was 16,779,869 shares.

As of August 5, 2005, all of the 122 outstanding Common Shares of Southern California Water Company were owned by American States Water Company.

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**AMERICAN STATES WATER COMPANY  
and  
SOUTHERN CALIFORNIA WATER COMPANY  
FORM 10-Q/A  
Amendment No. 1  
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Item 2: Not applicable in this Amendment No. 1

Item 3: Not applicable in this Amendment No. 1

Item 4: Not applicable in this Amendment No. 1

**Part II Other Information**

Item 1: Not applicable in this Amendment No. 1

Item 2: Not applicable in this Amendment No. 1

Item 3: Not applicable in this Amendment No. 1

Item 4: Not applicable in this Amendment No. 1

Item 5: Not applicable in this Amendment No. 1

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**EXPLANATORY NOTE**

The purpose of this amendment is to correct a printer's error in the header to the tables in Note 11 of the consolidated financial statements. As a result of this error, *Item I of Part I* is being re-filed with this correction.

**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, Southern California Water Company.

**Filing Format**

This quarterly report on Form 10-Q/A is a combined report being filed by two separate Registrants: American States Water Company (hereinafter "AWR") and Southern California Water Company (hereinafter "SCW"). 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 Operation*. References in this report to "Registrant" are to AWR and SCW collectively, unless otherwise specified. SCW makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than SCW.

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**AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS**

**ASSETS  
(Unaudited)**

<i>(in thousands)</i>	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>Utility Plant, at cost</b>		
Water	\$ 791,595	\$ 778,238
Electric	58,549	58,667
	850,144	836,905
Less Accumulated depreciation	(253,106)	(241,717)
	597,038	595,188
Construction work in progress	90,386	68,977
Net utility plant	687,424	664,165
<b>Other Property and Investments</b>		
Goodwill	11,883	11,925
Other property and investments	9,814	9,792
Total other property and investments	21,697	21,717
<b>Current Assets</b>		
Cash and cash equivalents	5,104	4,303
Accounts receivable-customers (less allowance for doubtful accounts of \$757 in 2005 and \$782 in 2004)	11,950	10,970
Unbilled revenue	17,633	13,743
Other accounts receivable (less allowance for doubtful accounts of \$234 in 2005 and \$201 in 2004)	3,092	3,384
Income taxes receivable		5,833
Materials and supplies, at average cost	1,436	1,496
Regulatory assets current	5,428	7,104
Prepayments and other current assets	3,364	3,466
Deferred income taxes current	1,736	2,725
Total current assets	49,743	53,024
<b>Regulatory and Other Assets</b>		
Regulatory assets	53,621	54,404
Other accounts receivable	8,607	8,400
Other	8,708	8,567

Total regulatory and other assets	70,936	71,371
<b>Total Assets</b>	<b>\$ 829,800</b>	<b>\$ 810,277</b>

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

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**AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
CAPITALIZATION AND LIABILITIES  
(Unaudited)**

<i>(in thousands)</i>	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>Capitalization</b>		
Common shares, no par value, no stated value	\$165,922	\$165,270
Earnings reinvested in the business	91,408	89,454
Accumulated other comprehensive loss	(3,259)	(3,259)
<b>Total common shareholders' equity</b>	<b>254,071</b>	<b>251,465</b>
Long-term debt	228,892	228,902
<b>Total capitalization</b>	<b>482,963</b>	<b>480,367</b>
<b>Current Liabilities</b>		
Notes payable to banks	49,000	45,000
Long-term debt - current	658	880
Accounts payable	18,782	18,206
Income taxes payable	3,356	
Accrued employee expenses	4,744	4,260
Accrued interest	1,877	1,670
Regulatory liabilities - current	3,697	3,441
Other	10,263	12,879
<b>Total current liabilities</b>	<b>92,377</b>	<b>86,336</b>
<b>Other Credits</b>		
Advances for construction	83,300	81,351
Contributions in aid of construction - net	76,223	73,100
Deferred income taxes	60,993	59,839
Unamortized investment tax credits	2,564	2,609
Accrued pension and other postretirement benefits	12,518	8,793
Regulatory liabilities	10,545	9,731
Other	8,317	8,151
<b>Total other credits</b>	<b>254,460</b>	<b>243,574</b>
<b>Commitments and Contingencies (Note 10)</b>		
<b>Total Capitalization and Liabilities</b>	<b>\$829,800</b>	<b>\$810,277</b>



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

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**AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS  
ENDED JUNE 30, 2005 AND 2004  
(Unaudited)**

	<b>Three Months Ended June 30,</b>	
<i>(in thousands, except per share amounts)</i>	<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>		
Water	\$53,551	\$53,576
Electric	6,091	5,449
Other	854	319
	60,496	59,344
<b>Operating Expenses</b>		
Water purchased	12,277	12,802
Power purchased for pumping	2,184	2,415
Power purchased for resale	2,710	2,538
Unrealized (gain) loss on purchased power contracts	(459)	76
Gain on sale of water rights		(5,675)
Groundwater production assessment	1,843	1,338
Supply cost balancing accounts	(550)	3,598
Other operating expenses	5,218	5,283
Administrative and general expenses	11,495	11,497
Depreciation and amortization	5,696	5,073
Maintenance	2,522	2,609
Taxes on income	4,808	5,086
Other taxes	2,221	2,105
Total operating expenses	49,965	48,745
<b>Operating Income</b>	<b>10,531</b>	<b>10,599</b>
<b>Other Income (Loss)</b>		
Other income (loss), net	(121)	851
Taxes on other income (loss)	69	(313)
Total other income (loss), net	(52)	538
<b>Interest Charges</b>		
Interest on long-term debt	4,054	4,052
Other interest and amortization of debt expense	690	375

Total interest charges	4,744	4,427
<b>Net Income</b>	<b>\$ 5,735</b>	<b>\$ 6,710</b>
<b>Weighted Average Number of Shares Outstanding</b>	16,773	15,248
<b>Basic Earnings Per Common Share</b>	<b>\$ 0.34</b>	<b>\$ 0.44</b>
<b>Weighted Average Number of Diluted Shares</b>	16,834	15,269
<b>Fully Diluted Earnings Per Share</b>	<b>\$ 0.34</b>	<b>\$ 0.44</b>
<b>Dividends Declared Per Common Share</b>	<b>\$ 0.225</b>	<b>\$ 0.221</b>

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

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**AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE SIX MONTHS ENDED  
JUNE 30, 2005 AND 2004  
(Unaudited)**

	<b>Six Months Ended June 30,</b>	
<i>(in thousands, except per share amounts)</i>	<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>		
Water	\$ 95,048	\$ 92,318
Electric	13,561	13,076
Other	1,681	601
	110,290	105,995
<b>Operating Expenses</b>		
Water purchased	19,963	21,683
Power purchased for pumping	3,671	4,132
Power purchased for resale	6,847	7,367
Unrealized gain on purchased power contracts	(3,474)	(481)
Gain on settlement for removal of wells	(760)	
Gain on sale of water rights		(5,675)
Groundwater production assessment	3,764	3,160
Supply cost balancing accounts	528	3,819
Other operating expenses	10,287	9,720
Administrative and general expenses	21,624	20,576
Depreciation and amortization	11,331	10,250
Maintenance	4,988	4,936
Taxes on income	8,024	6,028
Other taxes	4,493	4,331
Total operating expenses	91,286	89,846
<b>Operating Income</b>	<b>19,004</b>	<b>16,149</b>
<b>Other Income (Loss)</b>		
Other income (loss)	(242)	669
Taxes on other income (loss)	141	(214)
Total other income (loss)	(101)	455
<b>Interest Charges</b>		
Interest on long-term debt	8,106	8,102
Other interest and amortization of debt expense	1,298	646

Total interest charges	9,404	8,748
<b>Net Income</b>	<b>\$ 9,499</b>	<b>\$ 7,856</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>16,769</b>	<b>15,236</b>
<b>Basic Earnings Per Common Share</b>	<b>\$ 0.57</b>	<b>\$ 0.52</b>
<b>Weighted Average Number of Diluted Shares</b>	<b>16,821</b>	<b>15,265</b>
<b>Fully Diluted Earnings Per Share</b>	<b>\$ 0.56</b>	<b>\$ 0.51</b>
<b>Dividends Declared Per Common Share</b>	<b>\$ 0.450</b>	<b>\$ 0.442</b>

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

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**AMERICAN STATES WATER COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004**  
**(Unaudited)**

<i>(in thousands)</i>	<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 9,499	\$ 7,856
Adjustments for non-cash items:		
Depreciation and amortization	11,331	10,250
Provision for doubtful accounts	235	257
Deferred income taxes and investment tax credits	3,219	651
Unrealized gain on purchased power contracts	(3,474)	(481)
Impairment loss on assets removed from rate-base		482
Non-cash compensation expense on stock units issued	97	778
Other net	(107)	970
Changes in assets and liabilities:		
Accounts receivable customers	(1,182)	(479)
Unbilled revenue	(3,890)	(2,059)
Other accounts receivable	52	8,282
Materials and supplies	60	(107)
Prepayments and other current assets	1,549	1,820
Regulatory assets supply cost balancing accounts	528	3,819
Other assets	336	(46)
Accounts payable	576	(3,247)
Income taxes receivable/payable	9,189	5,135
Other liabilities	4,871	(4,802)
Net cash provided	32,889	29,079
<b>Cash Flows From Investing Activities:</b>		
Construction expenditures	(35,834)	(30,592)
Net cash used	(35,834)	(30,592)
<b>Cash Flows From Financing Activities:</b>		
Proceeds from issuance of common shares	555	1,204
Receipt of advances for and contributions in aid of construction	8,128	5,175
Refunds on advances for construction	(2,372)	(2,287)
Repayments of long-term debt	(353)	(331)
Net change in notes payable to banks	4,000	(2,000)
Cash received on financing portion of purchased power contracts	1,333	658
Dividends paid	(7,545)	(6,732)

Net cash provided (used)	3,746	(4,313)
<b>Net increase (decrease) in cash and cash equivalents</b>	801	(5,826)
<b>Cash and cash equivalents, beginning of period</b>	4,303	12,775
<b>Cash and cash equivalents, end of period</b>	\$ 5,104	\$ 6,949

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

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**SOUTHERN CALIFORNIA WATER COMPANY**  
**BALANCE SHEETS**  
**ASSETS**  
**(Unaudited)**

<i>(in thousands)</i>	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>Utility Plant, at cost</b>		
Water	\$ 747,710	\$ 734,662
Electric	58,549	58,667
	806,259	793,329
Less Accumulated depreciation	(240,502)	(229,664)
	565,757	563,665
Construction work in progress	84,487	65,136
Net utility plant	650,244	628,801
<b>Other Property and Investments</b>	7,438	7,419
<b>Current Assets</b>		
Cash and cash equivalents	3,323	2,702
Accounts receivable-customers (less allowance for doubtful accounts of \$720 in 2005 and \$758 in 2004)	11,814	10,818
Unbilled revenue	17,255	13,466
Inter-company receivable	707	1,126
Other accounts receivable (less allowance for doubtful accounts of \$234 in 2005 and \$201 in 2004)	2,053	2,465
Income taxes receivable from Parent		4,187
Materials and supplies, at average cost	1,410	1,473
Regulatory assets - current	5,428	7,104
Prepayments and other current assets	3,192	3,248
Deferred income taxes - current	1,791	2,795
Total current assets	46,973	49,384
<b>Regulatory and Other Assets</b>		
Regulatory assets	53,292	54,219
Other accounts receivable	8,607	8,400
Other	7,884	8,053
Total regulatory and other assets	69,783	70,672



<b>Total Assets</b>	\$ 774,438	\$ 756,276
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*The accompanying notes are an integral part of these financial statements*

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**SOUTHERN CALIFORNIA WATER COMPANY**  
**BALANCE SHEETS**  
**CAPITALIZATION AND LIABILITIES**  
(Unaudited)

<i>(in thousands)</i>	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>Capitalization</b>		
Common shares, no par value	\$ 159,387	\$ 159,290
Earnings reinvested in the business	89,793	87,817
Accumulated other comprehensive loss	(3,259)	(3,259)
<b>Total common shareholder's equity</b>	<b>245,921</b>	<b>243,848</b>
Long-term debt	221,687	221,697
<b>Total capitalization</b>	<b>467,608</b>	<b>465,545</b>
<b>Current Liabilities</b>		
Long-term debt - current	229	282
Accounts payable	17,430	17,196
Inter-company payable	29,383	23,925
Income taxes payable to Parent	3,792	
Accrued employee expenses	4,400	3,951
Accrued interest	1,796	1,636
Regulatory liabilities - current	3,697	3,441
Other	9,945	12,601
<b>Total current liabilities</b>	<b>70,672</b>	<b>63,032</b>
<b>Other Credits</b>		
Advances for construction	71,271	70,206
Contributions in aid of construction-net	75,393	72,574
Deferred income taxes	57,431	56,684
Unamortized investment tax credits	2,564	2,609
Accrued pension and other postretirement benefits	12,518	8,793
Regulatory liabilities	9,785	9,731
Other	7,196	7,102
<b>Total other credits</b>	<b>236,158</b>	<b>227,699</b>
<b>Commitments and Contingencies (Note 10)</b>		
<b>Total Capitalization and Liabilities</b>	<b>\$ 774,438</b>	<b>\$ 756,276</b>

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

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**SOUTHERN CALIFORNIA WATER COMPANY**  
**STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS**  
**ENDED JUNE 30, 2005 AND 2004**  
**(Unaudited)**

<i>(in thousands)</i>	<b>Three Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>		
Water	\$51,797	\$51,897
Electric	6,091	5,449
	57,888	57,346
<b>Operating Expenses</b>		
Water purchased	12,100	12,609
Power purchased for pumping	2,045	2,294
Power purchased for resale	2,710	2,538
Unrealized (gain) loss on purchased power contracts	(459)	76
Gain on sale of water rights		(5,675)
Groundwater production assessment	1,878	1,338
Supply cost balancing accounts	(550)	3,598
Other operating expenses	4,697	4,914
Administrative and general expenses	9,653	9,418
Depreciation and amortization	5,415	4,835
Maintenance	2,304	2,375
Taxes on income	5,207	6,024
Other taxes	2,112	2,015
Total operating expenses	47,112	46,359
<b>Operating Income</b>	10,776	10,987
<b>Other Income (Loss)</b>		
Other income (loss), net	(140)	851
Taxes on other income (loss)	77	(322)
Total other income (loss), net	(63)	529
<b>Interest Charges</b>		
Interest on long-term debt	3,956	3,939
Other interest and amortization of debt expense	460	258
Total interest charges	4,416	4,197

<b>Net Income</b>	\$ 6,297	\$ 7,319
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*The accompanying notes are an integral part of these financial statements*

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**SOUTHERN CALIFORNIA WATER COMPANY  
STATEMENTS OF INCOME  
FOR THE SIX MONTHS ENDED  
JUNE 30, 2005 AND 2004  
(Unaudited)**

<i>(in thousands)</i>	<b>June 30,</b>	<b>Six Months Ended June 30,</b>	
		<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>			
Water		\$ 91,951	\$ 89,358
Electric		13,561	13,076
		105,512	102,434
<b>Operating Expenses</b>			
Water purchased		19,670	21,329
Power purchased for pumping		3,457	3,935
Power purchased for resale		6,847	7,367
Unrealized gain on purchased power contracts		(3,474)	(481)
Gain on sale of water rights			(5,675)
Groundwater production assessment		3,799	3,160
Supply cost balancing accounts		528	3,819
Other operating expenses		9,310	9,007
Administrative and general expenses		18,472	17,154
Depreciation and amortization		10,772	9,772
Maintenance		4,613	4,628
Taxes on income		8,386	7,360
Other taxes		4,272	4,140
Total operating expenses		86,652	85,515
<b>Operating Income</b>		18,860	16,919
<b>Other Income (Loss)</b>			
Other income (loss), net		(264)	664
Taxes on other income (loss)		150	(221)
Total other income (loss), net		(114)	443
<b>Interest Charges</b>			
Interest on long-term debt		7,903	7,874
Other interest and amortization of debt expense		867	450
Total interest charges		8,770	8,324

<b>Net Income</b>	\$ 9,976	\$ 9,038
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*The accompanying notes are an integral part of these financial statements*

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**SOUTHERN CALIFORNIA WATER COMPANY**  
**CASH FLOW STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004**  
**(Unaudited)**

<i>(in thousands)</i>	<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 9,976	\$ 9,038
Adjustments for non-cash items:		
Depreciation and amortization	10,772	9,772
Provision for doubtful accounts	218	240
Deferred income taxes and investment tax credits	2,782	354
Unrealized gain on purchased power contracts	(3,474)	(481)
Impairment loss on assets removed from rate-base		482
Non-cash compensation expense on stock units issued	97	778
Other net	95	1,028
Changes in assets and liabilities:		
Accounts receivable customers	(1,181)	(553)
Unbilled revenue	(3,789)	(2,030)
Other accounts receivable	172	8,348
Materials and supplies	63	(108)
Prepayments and other current assets	1,503	1,864
Regulatory assets supply cost balancing accounts	528	3,819
Other assets	501	(118)
Accounts payable	234	(2,579)
Inter-company receivable/payable	(2,423)	(1,533)
Income taxes receivable/payable from/to Parent	7,979	6,788
Other liabilities	3,920	(5,074)
Net cash provided	27,973	30,035
<b>Cash Flows From Investing Activities:</b>		
Construction expenditures	(33,437)	(29,266)
Net cash used	(33,437)	(29,266)
<b>Cash Flows From Financing Activities:</b>		
Receipt of advances for and contributions in aid of construction	7,013	5,170
Refunds on advances for construction	(2,377)	(2,274)
Repayments of long-term debt	(184)	(174)
Net change in intercompany borrowings	8,300	
Cash received on financing portion of purchased power contracts	1,333	658
Dividends paid	(8,000)	(7,700)



Net cash provided (used)	6,085	(4,320)
<b>Net increase (decrease) in cash and cash equivalents</b>	621	(3,551)
<b>Cash and cash equivalents, beginning of period</b>	2,702	8,306
<b>Cash and cash equivalents, end of period</b>	\$ 3,323	\$ 4,755

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

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**AMERICAN STATES WATER COMPANY  
AND  
SOUTHERN CALIFORNIA WATER COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**Note 1 Summary of Significant Accounting Policies**

**General:** American States Water Company ( AWR ) is the parent company of Southern California Water Company ( SCW ), American States Utility Services, Inc. ( ASUS ) and its subsidiary, Fort Bliss Water Services Company ( FBWS ), and Chaparral City Water Company ( CCWC ). More than 90% of AWR s assets consist of the common stock of SCW. SCW is a public utility engaged principally in the purchase, production, distribution and sale of water in three regions in California. SCW also distributes electricity in the Big Bear Lake area in California. The California Public Utilities Commission ( CPUC ) regulates SCW s water and electric businesses, including properties, rates, services, facilities and other matters. CCWC is a public utility regulated by the Arizona Corporation Commission ( ACC ). ASUS performs water related services and operations on a contract basis. On October 1, 2004, ASUS s wholly-owned subsidiary, FBWS, commenced operation of the water and wastewater systems at Fort Bliss located near El Paso, Texas pursuant to the terms of a 50-year contract with the U.S. Government. FBWS holds a Certificate of Convenience and Necessity from the Texas Commission on Environmental Quality ( TCEQ ). There is no direct regulatory oversight by either the CPUC or the ACC of the operation or rates of ASUS s contracted services or AWR. Unless otherwise stated in this report, the term Registrant applies to both AWR and SCW, collectively.

**Basis of Presentation:** The consolidated financial statements of AWR include the accounts of AWR and its wholly-owned subsidiaries SCW, ASUS, FBWS and CCWC, and 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 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 ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America for annual financial statements have been condensed or omitted pursuant to such rules and regulations. 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 revenue 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, 2004 filed with the SEC. Certain prior year amounts have been reclassified to conform to current year presentation. None of these reclassifications had an impact on Registrant s Shareholders Equity or Net Income.

**SCW s Related Party Transactions:** SCW and other subsidiaries provide and receive various services to and from their parent, AWR, and among themselves. In addition, AWR has an \$85 million syndicated credit facility. AWR borrows under this facility and provides funds to SCW in support of its operations. Amounts owed to AWR for borrowings under this facility represent the majority of SCW s inter-company payables on SCW s balance sheets as of June 30, 2005 and December 31, 2004. Interest is charged to SCW in an amount sufficient to cover AWR s interest cost under the credit facility. SCW also allocates certain corporate office administrative and general costs to its affiliates using CPUC approved allocation factors.

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**Note 2 Regulatory Matters:** In accordance with accounting principles for rate-regulated enterprises, Registrant records regulatory assets, which represent probable future revenue associated with certain costs that will be recovered from customers through the rate-making process, and regulatory liabilities, which represent probable future reductions in revenue associated with amounts that are to be credited to customers through the rate-making process. At June 30, 2005, Registrant had \$24.5 million of regulatory assets not accruing carrying costs. Of this amount, \$15.1 million relates to the regulatory asset for costs deferred on the Aerojet matter disclosed below as a non-yielding regulatory asset. In addition, other regulatory assets not accruing carrying costs include a deferred income tax balance of \$6.7 million representing accelerated tax benefits previously flowed-through to ratepayers, which will be included in rates concurrently with recognition of the associated tax expense. Finally, there are other expenses that Registrant recovers in rates over a short period that do not provide for recovery of carrying costs. At June 30, 2005, \$2.7 million was recorded as other regulatory assets for such costs to be recovered.

Regulatory assets, less regulatory liabilities, included in the consolidated balance sheets are as follows:

<i>(In thousands)</i>	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>SCW</b>		
Supply cost balancing accounts	\$21,923	\$ 23,537
Costs deferred for future recovery on Aerojet case	15,122	15,347
Flow-through taxes, net	6,658	7,733
Electric transmission line abandonment costs	3,488	3,546
Asset retirement obligations	3,230	3,038
Low income balancing accounts	2,436	2,134
General rate case memorandum accounts	1,424	2,168
Refund of water right lease revenues	(6,199)	(5,889)
Revenues subject to refund	(3,518)	(3,487)
Supply cost memorandum accounts net over-collections	(643)	(1,818)
Other regulatory assets	1,317	1,842
<b>Total SCW</b>	<b>\$45,238</b>	<b>\$ 48,151</b>
<b>CCWC</b>		
Asset retirement obligations	\$ 43	\$ 41
Other regulatory assets/liabilities, net	(474)	144
<b>Total AWR</b>	<b>\$44,807</b>	<b>\$ 48,336</b>

**Supply Cost Balancing Accounts:**

**Electric Supply Cost Balancing Account** Electric power costs incurred by SCW's Bear Valley Electric division continue to be charged to its electric supply cost balancing account. The under-collection in the electric supply cost balancing account is \$21.6 million at June 30, 2005 which was mostly incurred during the energy crisis in late 2000 and early 2001. The CPUC has authorized SCW to collect a surcharge from its customers of 2.2¢ per kilowatt hour through August 2011, to enable SCW to recover the under-collection. SCW sold 30,120,267 and 29,204,086 kilowatt hours of electricity to its Bear Valley Electric division customers for the three months ended June 30, 2005 and 2004, respectively, and 70,314,814 and 69,955,975 kilowatt hours for the six months ended June 30, 2005 and 2004, respectively. SCW anticipates electricity sales to be sufficient for it to recover the amount of the under-collection by August 2011. SCW records both purchased energy and power system delivery costs in the supply cost balancing account. By terms of the settlement with the CPUC, the purchased energy costs that are recorded in the supply cost

balancing account are subject to a price cap. SCW is allowed to include only up to a weighted annual energy purchase cost of \$77 per MWh each year through August 2011 in its electric supply cost balancing account for purchased energy costs. To the extent that the actual weighted average annual cost for power purchased exceeds the \$77 per MWh amount, SCW will not be able to include these amounts in its balancing account and such amounts will be expensed. During the six months ended June 30, 2005 and 2004, SCW expensed approximately \$48,100 and \$224,400, respectively, for costs over \$77 per MWh.

**Table of Contents****Note 2 Regulatory Matters (Continued):****Water Memorandum Supply Cost Accounts:**

In a CPUC decision issued on June 19, 2003 related to memorandum supply cost accounts, all water utilities regulated by the CPUC are required to seek review of under- and over- collections by filing an advice letter annually. As of June 30, 2005, SCW has filed advice letters for Regions I and II for the period from November 29, 2001 to December 31, 2004 with respect to an approximate \$1.8 million cumulative net over-collection, which has been recorded as a regulatory liability. In June 2005, the CPUC approved these advice letters, as filed, for the 2001, 2002 and 2003 years totaling \$1.4 million over-collection which has been transferred to the supply cost balancing accounts. The advice letter for the 2004 year is awaiting approval. An additional \$223,000 of net over-collection related to the six months ended June 30, 2005 has also been recorded as a regulatory liability at June 30, 2005.

SCW also filed advice letters with the CPUC for review of the activity in the Region III memorandum supply cost account for the period from November 29, 2001 to December 31, 2004 totaling a cumulative \$4.3 million under-collection. A regulatory asset with respect to this under-collection is not recorded until receipt of a CPUC decision authorizing the recovery of the under-collection. In June 2005, the CPUC approved the transfer of an approximate \$1.3 million under-collection in Region III s 2004 memorandum supply cost account into the water supply cost balancing account as of June 30, 2005. The advice letters for the 2001-2003 years are awaiting approval.

**Costs Deferred for Future Recovery:**

SCW sued Aerojet-General Corporation ( Aerojet ) for causing the contamination of the Sacramento County Groundwater Basin, which affected certain SCW wells. On a related matter, SCW also filed a lawsuit against the State of California (the State ). The CPUC authorized memorandum accounts to allow for recovery, from customers, of costs incurred by SCW in prosecuting the cases against Aerojet and the State, less any recovery from the defendants or others. On October 30, 2003, SCW, in its Region I abbreviated general rate case, filed for recovery of the cumulative balance of approximately \$22 million in its memorandum account. This balance consisted primarily of deferred litigation costs and carrying costs. The filing with the CPUC requested recovery of the balance over a 20-year amortization period. As of June 30, 2005, approximately \$15.1 million has been recorded as a non-yielding regulatory asset representing primarily the legal costs incurred to date in connection with prosecuting the cases. The difference between the amount filed with the CPUC for recovery in rates and those recorded primarily relate to previously incurred carrying costs pertaining to certain capital investments required to restore the water supply.

On July 21, 2005, the CPUC authorized SCW to collect the balance of the Aerojet litigation memorandum account of approximately \$21.3 million, through a rate surcharge, which will continue for no longer than 20 years. As a result of this decision, SCW, among other things, was ordered to: (i) impose a surcharge in the Arden-Cordova customer service area to amortize the balance totaling \$21.3 million in the memorandum account and consequently, SCW will reflect an increase of approximately \$6.2 million in its regulatory assets to include previously expensed carrying costs and record a corresponding gain in its results of operations during the third quarter of 2005; (ii) restore the appropriate plant accounts by approximately \$1.1 million with a corresponding decrease in depreciation expense during the third quarter of 2005, due to the full reimbursement from Aerojet on capital expenditures, and (iii) keep the memorandum account open until it is fully amortized; however, no costs shall be added to the memorandum account, other than cumulative interest charges approved by the decision. It is management s intention to offset any settlement proceeds from Aerojet that may occur from these actions against the balance in the memorandum account at the time of settlement. See Note 10 for further discussion on the Aerojet matter.

**Table of Contents****Note 2 Regulatory Matters (Continued):****Refund of Water Right Lease Revenues:**

In 1994, SCW entered into a contract to lease to the City of Folsom, 5,000 acre-feet per year of water rights from the American River. SCW included all associated revenues in a non-operating income account. In a decision issued on March 16, 2004, the CPUC ordered SCW to refund 70 percent of the total amount of lease revenues received since 1994, plus interest, to customers. Pursuant to the order, SCW recorded a \$6.2 million regulatory liability with a corresponding charge against non-operating income, net of taxes, during the fourth quarter of 2003. A final amount of the refund was approved by the CPUC in June 2004 and SCW adjusted its estimate to the approved refund amount of \$5.2 million. Management disagreed with the CPUC's decision and filed an appeal to the decision. The CPUC denied SCW's request for an appeal. SCW filed with the Supreme Court of California to hear the matter, which was also denied in February of 2005. Subsequently, the Company filed a petition for writ of certiorari with the Supreme Court of the United States.

Pursuant to the order, the apportionment of any lease revenues that SCW may collect from January 2004 forward, will be determined by a later decision. Therefore, beginning in the first quarter of 2004, all amounts billed to the City of Folsom are included in a regulatory liability account and no amounts have been recognized as revenue for 2004 and 2005 until all uncertainties about this matter are resolved with the CPUC. For the three and six months ended June 30, 2005, SCW recorded an additional \$286,000 and \$572,000 in the regulatory liability account, respectively. In addition, in 2004 SCW began making refunds to customers pursuant to the March 16, 2004 CPUC order. Refunds of approximately \$142,000 and \$261,000 were provided to customers during the three and six months ended June 30, 2005, respectively. The refunds will be made over a 9-year period.

**CCWC Other Regulatory Assets/Liabilities:**

Fountain Hills Sanitary District ( FHSD ) is a political subdivision of the State of Arizona that provides sanitary sewer service to customers residing within CCWC's water service area. In connection with its sanitary system, FHSD constructed a recharge system whereby it recharges treated effluent through multiple aquifer storage and recovery wells. In order for FHSD to secure an Aquifer Protection Permit for its recharge system, FHSD requested CCWC to permanently cease using one of its wells. As a possible replacement for this well, FHSD constructed a new well adjacent to the community center ( Community Center Well ). However, this well was not able to produce an equivalent amount of water to CCWC's well that was taken out of production. Accordingly, in February 2005, CCWC entered into an agreement with FHSD whereby CCWC agreed to permanently remove from service this well and in return CCWC received a settlement fee of \$1,520,000 from FHSD. Pursuant to the agreement, CCWC will:

(i) permanently remove from service and cap this well, and cap another well which had never been used as a potable source of supply; (ii) relinquish any legal claim or interest that CCWC may otherwise possess in the Community Center Well; and (iii) grant an option to FHSD to acquire one of the wells at a future date at fair market value. The removal of these two wells from service did not have a significant impact on CCWC's water supply.

For the six months ended June 30, 2005, CCWC has recognized a net gain of \$760,000 related to this settlement agreement and has established a regulatory liability for the remaining \$760,000 pending Arizona Corporation Commission's ( ACC ) review of this matter.

Except as discussed above, there were no other significant changes in regulatory matters during the three and six months ended June 30, 2005.

**Table of Contents****Note 3 Earnings Per Share / Capital Stock:**

Earnings per share for all periods presented have been calculated and presented in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 128, *Earnings Per Share* . Basic earnings per Common Share are based upon the weighted average number of Common Shares outstanding and net income. Diluted earnings per Common Share are based upon the weighted average number of Common Shares including both outstanding shares and shares potentially issuable in connection with stock options and stock units granted under Registrant's 2000 Stock Incentive Plan and the 2003 Non-Employee Directors Stock Plan, and net income. At June 30, 2005 and 2004 there were 688,045 and 498,320 options outstanding, respectively, under these Plans. At June 30, 2005 and 2004, there were also approximately 30,300 and 31,500 stock units outstanding, respectively, pursuant to the 2003 Non-Employee Directors Stock Plan. Outstanding stock options and stock unit awards, including those issued for dividend equivalent rights, issued by the Registrant represent the only dilutive effect reflected in diluted weighted average shares outstanding. The difference between basic and diluted EPS is the effect of stock options and stock units that, under the treasury share method, gives rise to common stock equivalents. The following table summarizes the calculation of basic EPS and diluted EPS:

<i>(in thousands, except per share data)</i>	<b>For The Three Months Ended June 30,</b>		<b>For The Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Weighted average shares outstanding	16,773	15,248	16,769	15,236
Assumed exercise of stock options	44	3	36	11
Assumed stock units are converted to Common Shares	17	18	16	18
Weighted average diluted shares	16,834	15,269	16,821	15,265
Earnings available for common shareholders	\$ 5,735	\$ 6,710	\$ 9,499	\$ 7,856
Basic earnings per share	\$ 0.34	\$ 0.44	\$ 0.57	\$ 0.52
Diluted earnings per share	\$ 0.34	\$ 0.44	\$ 0.56	\$ 0.51

During the three months ended June 30, 2005 and 2004, Registrant issued 8,588 and 25,454 common shares, which totaled approximately \$237,000 and \$595,000 under the Registrant's Common Share Purchase and Dividend Reinvestment Plan and 401(k) Plan, respectively. During the six months ended June 30, 2005 and 2004, Registrant issued 20,685 and 49,666 common shares, which totaled approximately \$555,000 and \$1,204,000 under the Registrant's Common Share Purchase and Dividend Reinvestment Plan and 401(k) Plan, respectively. In addition during the three and six months ended June 30, 2005, Registrant repurchased 12,897 and 21,506 common shares, respectively, under the Registrant's Common Share Purchase and Dividend Reinvestment Plan, 401(k) Plan and anniversary stock grant program, which were used to satisfy the requirements of these plans.

During the three months ended June 30, 2005 and 2004, AWR paid quarterly dividends to the shareholders, totaling approximately \$3.8 million or \$0.225 per share and \$3.4 million or \$0.221 per share, respectively. During the six months ended June 30, 2005 and 2004, AWR paid quarterly dividends to the shareholders, totaling approximately \$7.5 million or \$0.450 per share and \$6.7 million or \$0.442 per share, respectively.

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**Note 4 Credit Facility:** In June 2005, AWR amended and restated its credit agreement which increased its borrowing limit under the revolving credit facility to \$85 million and extended the maturity date to June 2010. Up to \$20 million of this facility may be used for letters of credit. As of June 30, 2005, an aggregate of \$49 million in cash borrowings are included in current liabilities and approximately \$11.2 million of letters of credit were outstanding under this facility.

**Note 5 Derivative Instruments:** During 2002, SCW entered into block-forward power purchase contracts that qualified as derivative instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS Nos. 138 and 139. Contracts with Pinnacle West Capital Corporation ( PWCC ) which became effective in November 2002 have not been designated as normal purchases and normal sales and, as a result, have been recognized at fair market value on the balance sheets as of June 30, 2005 and December 31, 2004. This resulted in a pre-tax unrealized gain of \$459,000 and a pre-tax unrealized loss of \$76,000 for the three months ended June 30, 2005 and 2004, respectively, and a pre-tax unrealized gain of \$3,474,000 and \$481,000 for the six months ended June 30, 2005 and 2004, respectively, due to continued increases in energy prices. On a monthly basis, the related asset or liability is adjusted to reflect the fair market value at the end of the month. As this contract moves forward in time and is settled, the realized gains or losses are recorded in power purchased for resale, and the unrealized gains or losses are reversed. 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. Settlement of this contract occurs on a cash or net basis through 2006 and by physical delivery through 2008. Registrant has no other derivative financial instruments.

**Note 6 Income Taxes**

As a regulated utility, SCW 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 increase or decrease 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 SCW were not required to account for its income taxes as a regulated enterprise. During the three and six months ended June 30, 2005, the recognition of the federal benefit of state taxes was adjusted to conform to the flow-through method reflected in the tax calculation for ratemaking purposes, which partially defers the recognition of the benefit to the subsequent tax year. This resulted in additional income taxes of \$389,000, which was partially offset by other favorable flow-through adjustments applicable to the three and six months ended June 30, 2005 and 2004.

In October 2004, the American Jobs Creation Act of 2004 (the Act ) was signed into law and provides a new federal income tax deduction from qualified U.S. production activities, which is being phased in from 2005 through 2010. Under the Act, qualified production activities include Registrant's production of electricity and potable water. In December 2004, the FASB issued FASB Staff Position No. 109-1 and proposed that the deduction should be accounted for as a special deduction in accordance with SFAS No. 109. As such, the special deduction had no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of the deduction is to be reported in the period in which the deduction is claimed on Registrant's tax return. Further guidance from tax authorities (including Treasury Regulations) with respect to the deduction is pending. During the first quarter of fiscal 2005, Registrant completed its initial evaluation of the provisions of the Act and determined that the amount of the benefit for the three and six months ended June 30, 2005 was not material.



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**Note 7 Stock Incentive Plans:** Registrant applies Accounting Principles Board Opinion ( APB ) No. 25, *Accounting for Stock Issued to Employees* , in accounting for its stock options under its 2000 Stock Incentive Plan. Accordingly, no compensation cost for the Plan has been recognized for options granted at fair value at the date of grant. Registrant has also adopted the disclosure only requirements of SFAS No. 123, *Accounting for Stock-Based Compensation* .

At the May 2004 Annual Meeting, the shareholders adopted the 2003 Non-Employee Directors Stock Plan ( New Directors Plan ). The New Directors Plan provides the non-employee directors with supplemental stock-based compensation. Pursuant to the New Directors Plan, directors are entitled to receive stock options and stock unit awards. As of June 30, 2005, an aggregate of 27,000 stock options have been granted to the directors under the New Director s Plan. Registrant also applies APB No. 25 in accounting for the director s stock options. The director s stock options were granted at fair value at the date of grant; therefore no compensation cost has been recognized for these options. The stock units are a non-voting unit of measurement which is deemed for bookkeeping and payment purposes to represent outstanding AWR common shares. Upon adoption of the New Directors Plan in May 2004, Registrant began recording compensation expense on the stock unit awards. As of June 30, 2005, the directors have been credited with approximately 30,300 stock units. Stock units will be paid only in AWR common shares on the date that the participant terminates service as a director.

If Registrant had elected to adopt the optional recognition provisions of SFAS No. 123 for its stock options and stock units under the 2000 Stock Incentive Plan and the New Directors Plan, net income and earnings per share applicable to common shareholders would have been changed to the pro forma amounts indicated below:

<i>(dollars in thousands, except EPS)</i>	<b>For The Three Months Ended June 30,</b>		<b>For The Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Earnings available to common shareholders:</b>				
As reported	\$ 5,735	\$ 6,710	\$ 9,499	\$ 7,856
Add: Stock-based compensation expense included in reported net income, net of tax	52	461	57	461
Less: Stock-based compensation expense determined under the fair-value accounting method, net of tax	(106)	(497)	(672)	(909)
Pro forma	\$ 5,681	\$ 6,674	\$ 8,884	\$ 7,408
<b>Basic earnings per share:</b>				
As reported	\$ 0.34	\$ 0.44	\$ 0.57	\$ 0.52
Pro forma	\$ 0.34	\$ 0.44	\$ 0.53	\$ 0.49
<b>Diluted earnings per share:</b>				
As reported	\$ 0.34	\$ 0.44	\$ 0.56	\$ 0.51
Pro forma	\$ 0.34	\$ 0.44	\$ 0.53	\$ 0.49

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**Note 8 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, 2005 and 2004 are as follows:

<i>(dollars in thousands)</i>	<b>For The Three Months Ended June 30, 2005 and 2004</b>					
	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>		<b>SERP</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Components of Net Periodic Benefits Cost:</b>						
Service Cost	\$ 933	\$ 701	\$ 109	\$ 101	\$ 32	\$ 32
Interest Cost	1,088	906	151	148	28	31
Expected Return on Plan Assets	(922)	(830)	(74)	(64)		
Amortization of Transition			105	105		
Amortization of Prior Service Cost	41	40	(50)	(50)	38	37
Amortization of Actuarial (Gain) Loss	313	90	41	30	(10)	
Net Periodic Pension Cost	\$ 1,453	\$ 907	\$ 282	\$ 270	\$ 88	\$ 100

<i>(dollars in thousands)</i>	<b>For The Six Months Ended June 30, 2005 and 2004</b>					
	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>		<b>SERP</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Components of Net Periodic Benefits Cost:</b>						
Service Cost	\$ 1,866	\$ 1,402	\$ 218	\$ 202	\$ 64	\$ 64
Interest Cost	2,176	1,812	302	296	56	62
Expected Return on Plan Assets	(1,844)	(1,660)	(148)	(128)		
Amortization of Transition			210	210		
Amortization of Prior Service Cost	82	80	(100)	(100)	76	74
Amortization of Actuarial (Gain) Loss	626	180	82	60	(20)	
Net Periodic Pension Cost	\$ 2,906	\$ 1,814	\$ 564	\$ 540	\$ 176	\$ 200

A decrease in the discount rate from 6.25% to 5.75%, and the update of mortality rate tables resulted in increases in pension and other postretirement benefits between the two periods presented. Registrant expects to contribute \$4,430,000 and \$933,000 to pension and postretirement plans in 2005, respectively. No contributions were made during the three and six months ended June 30, 2005.

**Note 9 New Accounting Pronouncements:**

In May 2005, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 154, *Accounting Changes and Error Corrections - A Replacement of APB Opinion No. 20 and FASB Statement No. 3* . SFAS 154 primarily requires retrospective application to prior periods financial statements for the direct effects of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and early adoption is permitted. Registrant is required to adopt the provision of SFAS 154, as applicable, beginning in fiscal 2006.

**Table of Contents****Note 9 New Accounting Pronouncements (Continued):**

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated even though uncertainty exists about the timing and (or) method of settlement. Registrant is required to adopt Interpretation No. 47 by the end of 2006. Registrant is currently evaluating the impact Interpretation No. 47 will have on its results of operations and financial condition.

In December 2004, the FASB issued a revision to SFAS No. 123, *Share-Based Payment*, (SFAS No. 123R) which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, (SFAS No. 123). SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on fair values. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. In April 2005, the Securities and Exchange Commission deferred the adoption date of SFAS No. 123R to the beginning of the fiscal year that begins after June 15, 2005, (January 1, 2006 for calendar year companies) from a July 1, 2005 adoption date previously set by the FASB. Registrant expects to adopt this standard on January 1, 2006. Based on stock option grants made in 2005 and currently anticipated for 2006, Registrant estimates it will (assuming the modified prospective method is used) recognize expense for stock options for the year ending December 31, 2006 in an amount consistent to that disclosed in Note 7 which summarizes the pro forma impact of recognizing stock expense under the fair value accounting method. Registrant assumes that stock options will be granted in 2006 upon similar terms to options granted in 2005, which provide for continued vesting of the options following termination of employment, unless the grantee is terminated for cause. If these assumptions change, the impact of recognizing stock expense under the fair value accounting method will differ from amounts disclosed in Note 7.

In October 2004, the American Jobs Creation Act of 2004 (the Act) was signed into law and provides a new federal income tax deduction from qualified U.S. production activities, which will be phased in from 2005 through 2010. During the first quarter of fiscal 2005, Registrant completed its initial evaluation of the provisions of the Act. See Note 6 for further information.

**Note 10 Contingencies:****Water Quality-Related Litigation:**

In 1997, SCW was named as a defendant in nineteen lawsuits that alleged that SCW and other water utilities, delivered unsafe water to their customers in the San Gabriel Valley and Pomona Valley areas of Los Angeles County. Plaintiffs in these actions sought damages, including general, special, and punitive damages, as well as attorney's fees on certain causes of action, costs of suit, and other unspecified relief.

On August 4, 2004, SCW was ordered dismissed from all nineteen Los Angeles County cases. The order was issued by the Trial Judge presiding over these matters, and followed a lengthy legal proceeding dating back to April 1997 when the first of the cases was filed by over 140 customers in the San Gabriel Valley, alleging their water had caused personal injuries of varying types and degrees. The Court found SCW did not violate established water quality standards and dismissed the cases after allowing reasonable time and opportunity for the plaintiffs to prove otherwise. SCW has long asserted that it meets or exceeds the requirements to provide water within the standards established by the health authorities. On September 21, 2004, SCW received notice that several plaintiffs filed an appeal to the trial court's order to dismiss SCW. SCW is unable to predict the outcome of this appeal.

**Table of Contents****Note 10 Contingencies (Continued):**

SCW is subject to self-insured retention provisions in its applicable insurance policies and has either expensed the self-insured amounts or has reserved against payment of these amounts as appropriate. SCW's various insurance carriers have, to date, provided reimbursement for much of the costs incurred above the self-insured amounts for defense against these lawsuits, subject to a reservation of rights. In addition, the CPUC has issued certain decisions, which authorize SCW to establish a memorandum account to accumulate costs for future recovery, to comply with certain contamination remediation requirements for future recovery. SCW was also dismissed from three similar lawsuits in Northern California in 2004; the plaintiffs in those cases have not filed an appeal.

**Aerojet:**

On October 25, 1999, SCW sued Aerojet for causing the contamination of eastern portions of the Sacramento County groundwater basin. On October 10, 2003, Registrant entered into a confidential Memorandum of Understanding ( MOU ) with Aerojet for the settlement of legal actions brought by SCW. The MOU set forth the financial terms and the structure of a settlement to cover, over time, capital and litigation related costs incurred by SCW resulting from the contamination. The MOU and the settlement embodied therein were found to be binding by the Sacramento Superior Court on January 18, 2004. On October 12, 2004, Registrant reached a final settlement with Aerojet based on the terms of the MOU. Under the terms of the settlement, Aerojet paid SCW \$8.7 million in the first quarter of 2004. Aerojet has also agreed to pay SCW an additional \$8 million, plus interest accruing beginning January 1, 2004, over a five year period beginning in December 2009. The \$8.7 million payment and guaranteed future payments have been applied directly to reduce SCW's costs of utility plant and purchased water by \$16 million and \$735,000, respectively. Prior to the MOU, Aerojet had reimbursed SCW \$4.3 million in capital costs and \$171,000 for additional water supply costs.

Aerojet has also agreed to reimburse SCW \$17.5 million, plus interest accruing from January 1, 2004, for its past legal and expert costs. The recovery of the \$17.5 million is contingent upon the issuance of land use approvals for development in a defined area within Aerojet property in Eastern Sacramento County and the receipt of certain fees in connection with such development.

Aerojet will also transfer its remediated groundwater to the Sacramento County Water Agency, which will provide treated water for distribution to SCW and other water purveyors affected by the contamination. SCW has entered into an agreement with Sacramento County Water Agency to receive water as outlined above. SCW and Aerojet have also signed three separate agreements requiring Aerojet to pay for certain transmission pipelines and upgrades to SCW's Coloma Treatment Plant as a contingency plan, should additional wells be impacted. Aerojet has reimbursed SCW for the cost of these capital improvements. The pipelines are now in service and the upgraded treatment facilities are expected to be fully operational by the end of 2005.

In 2000, the CPUC authorized the establishment of a memorandum account into which SCW was allowed to record costs it incurred in prosecuting the contamination suits filed against the State and Aerojet. The CPUC also authorized SCW periodically to seek recovery of such recorded costs from ratepayers. In that regard, SCW sought interim cost recovery and was authorized to increase rates, effective April 28, 2001, in an amount sufficient over a six-year period to offset approximately \$1.8 million in such legal and expert costs recorded in the memorandum account that had been incurred on or before August 31, 2000. As of June 30, 2005, approximately \$15.1 million in legal and consulting related costs, including the unamortized portion of the \$1.8 million, have been recorded as a deferred charge and included in Regulatory Assets on the SCW balance sheets.

**Table of Contents****Note 10 Contingencies (Continued):**

On July 21, 2005, the CPUC authorized SCW to collect the balance of the Aerojet litigation memorandum account of approximately \$21.3 million, through a rate surcharge, which will continue for no longer than 20 years. As a result of this decision, SCW, among other things, was ordered to: (i) impose a surcharge in the Arden-Cordova customer service area to amortize the balance totaling \$21.3 million in the memorandum account and consequently, SCW will reflect an increase of approximately \$6.2 million in its regulatory assets to include previously expensed carrying costs and record a corresponding gain in its results of operations during the third quarter of 2005; (ii) restore the appropriate plant accounts by approximately \$1.1 million with a corresponding decrease in depreciation expense during the third quarter of 2005, due to the full reimbursement from Aerojet on capital expenditures, and (iii) keep the memorandum account open until it is fully amortized; however, no costs shall be added to the memorandum account, other than cumulative interest charges approved by the decision. Furthermore, it is management's intention to offset any settlement proceeds from Aerojet's proposed land development, first against the guaranteed \$8 million note from Aerojet and then against the balance in the memorandum account at the time of receipt of the settlement payments.

**Other Water Quality Litigation:**

Perchlorate and/or Volatile Organic Compounds ( VOC ) have been detected in five wells servicing SCW's San Gabriel System. SCW filed suit in federal court, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority ( WQA ), against some of those responsible for the contamination. Some of the other potential defendants settled with SCW, other water purveyors and the WQA (the Water Entities ) on VOC related issues prior to the filing of the lawsuit. In response to the filing of the Federal 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 defendant's motions. A key ruling of the court was that the water purveyors, including the Registrant, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act ( CERCLA ).

Registrant has, pursuant to permission of the court, amended its suit to claim certain affirmative defenses as an innocent party under CERCLA. Registrant is presently unable to predict the outcome of this ruling on its ability to fully recover from the PRPs future costs associated with the treatment of these wells. In this same suit, the PRPs have filed cross-complaints against the Water Entities, the Metropolitan Water District, the Main San Gabriel Basin Watermaster and others on the theory that they arranged for and did transport contaminated water into the Basin for use by Registrant and the other two affected water providers and for other related claims.

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 that portion of the San Gabriel Valley from which two of SCW's impacted wells draw water. SCW was not named as a party to the UAO. The UAO requires that these parties remediate the contamination. The judge in the Federal lawsuit has appointed a special master to oversee mandatory settlement discussions between the PRPs and the Water Entities. EPA is also conducting settlement discussions with several PRPs regarding the UAO. The Water Entities and EPA are working to coordinate their settlement discussions in order to arrive at a complete resolution of all issues affecting the Federal lawsuits and the UAO. Registrant is presently unable to predict the ultimate outcome of these settlement discussions.

**Table of Contents****Note 10 Contingencies (Continued):****Condemnation of Properties**

The laws of the State of California and the State of Arizona 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 in the public interest. In addition, however, the laws of the State of California also provide: (1) that the owner of the utility property may contest whether the condemnation is actually in the public interest; and (2) that the owner is entitled to receive the fair market value of its property if the property is ultimately taken.

Although the City of Claremont, California located in SCW's Region III, has not initiated the formal condemnation process pursuant to California law, the City has expressed various concerns to SCW about the rates charged by SCW and the effectiveness of the CPUC's rate setting procedures. The City hired a consultant to perform an appraisal of the value of Registrant's water system serving the City. Such value was determined by the consultant at \$40-\$45 million. SCW disagrees with the City's valuation assessment. Under California law, the condemning City would be required to pay fair market value for the water system. As of June 30, 2005, management believes that the fair market value of the system far exceeds the \$33 million recorded net book value of the Claremont water system.

Except for the City of Claremont, Registrant has not been, within the last three years, involved in activities related to the condemnation of any of its water customer service areas or in its Bear Valley Electric customer service area; however, on April 12, 2005, the Town Council of the Town of Apple Valley voted 5-0 to authorize Town staff to prepare a Request for Proposal for an evaluation of the feasibility and potential cost of and a timeframe for the potential takeover of SCW's Apple Valley water systems as well as the water systems of another utility serving the Town. SCW has not received any formal notice from the Town of its intention to condemn the Registrant's Apple Valley water systems. Management is unable to predict what the results of the Town's evaluation might be and what action, if any, the Town might take as a result of the evaluation. However, SCW will vigorously defend itself should the Town determine to proceed towards condemning its Apple Valley water systems. As of June 30, 2005, the recorded net book value of the Apple Valley water systems is approximately \$2.2 million.

**Santa Maria Groundwater Basin Adjudication:**

In 1997, the Santa Maria Valley Water Conservation District ( plaintiff ) filed a lawsuit against multiple defendants, including SCW, the City of Santa Maria, and several other public water purveyors. The plaintiff's lawsuit seeks an adjudication of the Santa Maria Groundwater Basin. After some procedural rulings by the superior court, the lawsuit is now a full basin adjudication involving all entities owning 10 acres or more within the Basin boundaries approximately 1,400 defendants. The plaintiff's stated objective in the adjudication lawsuit is to have the superior court impose and oversee the implementation of a Basin management plan that ensures the long term integrity and reliability of the Basin water resources. To protect its groundwater supply so that sufficient water production rights continue to be available to meet SCW's customers' needs in the Santa Maria customer service area, SCW has been vigorously defending its water rights in the adjudication lawsuit.

**Table of Contents****Note 10 Contingencies (Continued):**

As of June 30, 2005, SCW has incurred costs in defending its rights in the Basin, including legal and expert witness fees, which have been deferred in Utility Plant for rate recovery. A settlement has been reached, subject to CPUC approval. The settlement, among other things, if approved, would preserve SCW'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. Management also believes that the recovery of these costs through rates is probable; however, management cannot give assurance that the CPUC will ultimately allow recovery of all or any of the costs that have been incurred by SCW in this lawsuit.

**Other Litigation:**

Registrant is also subject to ordinary routine litigation incidental to its business. Other than those disclosed above, no other legal proceedings are pending, which are believed to be material. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against property, general liability and workers compensation claims incurred in the ordinary course of business.

**Note 11 Business Segments:** AWR has three principal business units: water and electric distribution units, through its SCW subsidiary, a water-service utility operation conducted through its CCWC unit, and a contracted services unit through the ASUS subsidiary. All activities of SCW are geographically located within California. All activities of CCWC are located in the state of Arizona. All activities of ASUS are conducted in California, Arizona and Texas. Both SCW and CCWC are regulated utilities. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. The tables below set forth information relating to SCW's operating segments, CCWC and ASUS's contract services businesses as well as the operations of its wholly-owned subsidiary, FBWS. Included in the amounts set forth, certain assets, revenues and expenses have been allocated. 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 the Company.

	<i>As of and for the Three Months Ended June 30, 2005</i>					
	SCW		CCWC		Eliminations	Consolidated AWR
	Water	Electric	Water	Other*		
Operating revenues	\$ 51,797	\$ 6,091	\$ 1,753	\$ 890	(\$35)	\$ 60,496
Operating income (loss) before income taxes	15,093	890	286	(930)		15,339
Interest expense, net	4,006	410	104	224		4,744
Identifiable assets	610,249	39,995	36,488	692		687,424
Depreciation and amortization expense	4,903	512	264	17		5,696
Capital additions	14,628	682	1,450	248		17,008

	<i>As of and for the Three Months Ended June 30, 2004</i>					
	SCW		CCWC		Eliminations	Consolidated AWR
	Water	Electric	Water	Other*		
Operating revenues	\$ 51,897	\$ 5,449	\$ 1,704	\$ 319	(\$25)	\$ 59,344
Operating income (loss) before income taxes	17,922	(911)	123	(1,449)		15,685
Interest expense, net	3,763	434	121	109		4,427
Identifiable assets	551,764	37,681	32,245	172		621,862
Depreciation and amortization expense	4,526	309	234	4		5,073
Capital additions	15,783	552	715	57		17,107



**Table of Contents****Note 11 Business Segments (Continued):***(dollars in thousands)**As of and for the Six Months Ended June 30, 2005*

	SCW		CCWC		Eliminations	Consolidated AWR
	Water	Electric	Water	Other*		
Operating revenues	\$ 91,951	\$13,561	\$ 3,096	\$ 1,717	(\$35)	\$110,290
Operating income (loss) before income taxes	22,904	4,342	1,266	(1,484)		27,028
Interest expense, net	7,956	814	224	410		9,404
Identifiable assets	610,249	39,995	36,488	692		687,424
Depreciation and amortization expense	9,765	1,007	525	34		11,331
Capital additions	32,077	1,360	2,038	359		35,834

*(dollars in thousands)**As of and for the Six Months Ended June 30, 2004*

	SCW		CCWC		Eliminations	Consolidated AWR
	Water	Electric	Water	Other*		
Operating revenues	\$ 89,358	\$13,076	\$ 3,008	\$ 601	(\$48)	\$105,995
Operating income (loss) before income taxes	24,272	7	234	(2,336)		22,177
Interest expense, net	7,552	772	243	181		8,748
Identifiable assets	551,764	37,681	32,245	172		621,862
Depreciation and amortization expense	9,054	718	470	8		10,250
Capital additions	26,928	2,338	1,243	83		30,592

\* *Includes amounts from AWR and ASUS s contracted services. Beginning on October 1, 2004, it also includes ASUS s wholly-owned subsidiary FBWS.*

**Note 12 Subsequent Event:** As more fully discussed in Notes 2 and 10, on July 21, 2005, the CPUC authorized SCW to collect the balance of the Aerojet litigation memorandum account of approximately \$21.3 million, through a rate surcharge, which will continue for no longer than 20 years.

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**Item 6. Exhibits**

(a) The following documents are filed as Exhibits to this report:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR <sup>(1)</sup>
- 31.1.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for SCW <sup>(1)</sup>
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR <sup>(1)</sup>
- 31.2.1 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for SCW <sup>(1)</sup>
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <sup>(2)</sup>
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <sup>(2)</sup>

(1) Filed concurrently herewith.

(2) Furnished concurrently herewith.

**SIGNATURE**

Pursuant to the requirements of Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized and as its principal financial officer.

AMERICAN STATES WATER COMPANY  
and its subsidiary  
SOUTHERN CALIFORNIA WATER  
COMPANY

By: /s/ Robert J. Sprowls  
Robert J. Sprowls  
Senior Vice President-Finance, Chief  
Financial Officer, Treasurer and  
Corporate Secretary

Dated: August 18, 2005