

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 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

(State or Other Jurisdiction of Incorporation or Organization)

95-4676679

(IRS Employer Identification No.)

630 East Foothill Boulevard, San Dimas

(Address of Principal Executive Offices)

91773

(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

(State or Other Jurisdiction of Incorporation or Organization)

95-1243678

(IRS Employer Identification No.)

630 East Foothill Boulevard, San Dimas

(Address of Principal Executive Offices)

91773

(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.

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

American States Water Company
Southern California Water Company

Yes No
Yes No

As of May 10, 2005, the number of Common Shares outstanding, of American States Water Company was 16,771,565 shares.

As of May 10, 2005, all of the 122 outstanding Common Shares of Southern California Water Company were owned by American States Water Company.

AMERICAN STATES WATER COMPANY
and
SOUTHERN CALIFORNIA WATER COMPANY
FORM 10-Q

INDEX

	<u>Page No.</u>
Part I	
Financial Information	
Item 1:	
Financial Statements	2
Consolidated Balance Sheets of American States Water Company as of March 31, 2005 and December 31, 2004	3-4
Consolidated Statements of Income of American States Water Company for the Three Months Ended March 31, 2005 and 2004	5
Consolidated Statements of Cash Flow of American States Water Company for the Three Months Ended March 31, 2005 and 2004	6
Balance Sheets of Southern California Water Company as of March 31, 2005 and December 31, 2004	7-8
Statements of Income of Southern California Water Company for the Three Months Ended March 31, 2005 and 2004	9
Statements of Cash Flow of Southern California Water Company for the Three Months Ended March 31, 2005 and 2004	10
Notes to Consolidated Financial Statements	11-24
Item 2:	
Management's Discussion and Analysis of Financial Condition and Results of Operation	25-52
Item 3:	
Quantitative and Qualitative Disclosures About Market Risks	52
Item 4:	
Controls and Procedures	53
Part II	
Other Information	
Item 1:	
Legal Proceedings	54
Item 2:	
Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3:	
Defaults Upon Senior Securities	55
Item 4:	
Submission of Matters to a Vote of Security Holders	55
Item 5:	
Other Information	55
Item 6:	
Exhibits	55
Signature	56
Exhibit 3.1	
Exhibit 31.1	
Exhibit 31.1.1	
Exhibit 31.2	
Exhibit 31.2.1	
Exhibit 32.1	
Exhibit 32.2	

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, although Registrant believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments 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 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 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.

AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS
(Unaudited)

<i>(in thousands)</i>	March 31, 2005	December 31, 2004
Utility Plant, at cost		
Water	\$ 783,741	\$ 778,238
Electric	58,664	58,667
	842,405	836,905
Less — Accumulated depreciation	(247,778)	(241,717)
	594,627	595,188
Construction work in progress	82,112	68,977
Net utility plant	676,739	664,165
Other Property and Investments		
Goodwill	11,903	11,925
Other property and investments	9,737	9,792
	21,640	21,717
Current Assets		
Cash and cash equivalents	5,825	4,303
Accounts receivable-customers (less allowance for doubtful accounts of \$776 in 2005 and \$782 in 2004)	9,197	10,970
Unbilled revenue	12,860	13,743
Other accounts receivable (less allowance for doubtful accounts of \$234 in 2005 and \$201 in 2004)	1,998	3,384
Income taxes receivable	4,239	5,833
Materials and supplies, at average cost	1,451	1,496
Regulatory assets — current	6,251	7,104
Prepayments and other current assets	3,486	3,466
Deferred income taxes — current	1,692	2,725
	46,999	53,024
Regulatory and Other Assets		
Regulatory assets	53,802	54,404
Other accounts receivable	8,503	8,400
Other	8,569	8,567
Total regulatory and other assets	70,874	71,371
Total Assets	\$ 816,252	\$ 810,277

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

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

<i>(in thousands)</i>	March 31, 2005	December 31, 2004
Capitalization		
Common shares, no par value, no stated value	\$ 165,596	\$ 165,270
Earnings reinvested in the business	\$ 89,447	89,454
Accumulated other comprehensive loss	(3,259)	(3,259)
Total common shareholders' equity	251,784	251,465
Long-term debt	228,902	228,902
Total capitalization	480,686	480,367
Current Liabilities		
Notes payable to banks	47,000	45,000
Long-term debt — current	658	880
Accounts payable	14,460	18,206
Accrued employee expenses	4,136	4,260
Accrued interest	5,025	1,670
Regulatory liabilities — current	3,701	3,441
Other	10,169	12,879
Total current liabilities	85,149	86,336
Other Credits		
Advances for construction	84,036	81,351
Contributions in aid of construction — net	74,047	73,100
Deferred income taxes	59,829	59,839
Unamortized investment tax credits	2,587	2,609
Accrued pension and other postretirement benefits	10,609	8,793
Regulatory liabilities	11,084	9,731
Other	8,225	8,151
Total other credits	250,417	243,574
Commitments and Contingencies (Note 9)	—	—
Total Capitalization and Liabilities	\$ 816,252	\$ 810,277

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED MARCH 31, 2005 AND 2004
(Unaudited)

	Three Months Ended March 31,	
	2005	2004
<i>(in thousands, except per share amounts)</i>		
Operating Revenues		
Water	\$ 41,497	\$ 38,742
Electric	7,470	7,627
Other	827	282
	<u>49,794</u>	<u>46,651</u>
Operating Expenses		
Water purchased	7,686	8,881
Power purchased for pumping	1,487	1,717
Power purchased for resale	4,137	4,829
Unrealized gain on purchased power contracts	(3,015)	(557)
Gain on settlement for removal of wells	(760)	—
Groundwater production assessment	1,921	1,822
Supply cost balancing accounts	1,078	221
Other operating expenses	5,069	4,437
Administrative and general expenses	10,129	9,079
Depreciation and amortization	5,635	5,177
Maintenance	2,466	2,327
Taxes on income	3,216	942
Other taxes	2,272	2,226
Total operating expenses	<u>41,321</u>	<u>41,101</u>
Operating Income	8,473	5,550
Other Income (Loss)		
Other income (loss)	(121)	(182)
Taxes on other income (loss)	72	99
Total other income (loss)	<u>(49)</u>	<u>(83)</u>
Interest Charges		
Interest on long-term debt	4,052	4,050
Other interest and amortization of debt expense	608	271
Total interest charges	<u>4,660</u>	<u>4,321</u>
Net Income	<u>\$ 3,764</u>	<u>\$ 1,146</u>
Weighted Average Number of Shares Outstanding	16,761	15,224
Basic Earnings Per Common Share	\$ 0.22	\$ 0.08
Weighted Average Number of Diluted Shares	16,805	15,255
Fully Diluted Earnings Per Share	\$ 0.22	\$ 0.08
Dividends Declared Per Common Share	\$ 0.225	\$ 0.221

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(Unaudited)

<i>(in thousands)</i>	Three Months Ended March 31,	
	2005	2004
Cash Flows From Operating Activities:		
Net income	\$ 3,764	\$ 1,146
Adjustments for non-cash items:		
Depreciation and amortization	5,635	5,177
Provision for doubtful accounts	145	36
Deferred income taxes and investment tax credits	1,554	1,018
Unrealized gain on purchased power contracts	(3,015)	(557)
Non-cash compensation expense on stock units issued	8	—
Other — net	545	184
Changes in assets and liabilities:		
Accounts receivable — customers	1,661	3,057
Unbilled revenue	883	1,626
Other accounts receivable	1,250	9,245
Materials and supplies	45	(92)
Prepayments and other current assets	968	1,109
Regulatory assets — supply cost balancing accounts	1,078	221
Other assets	741	(487)
Accounts payable	(3,746)	(5,392)
Income taxes receivable/payable	1,594	(834)
Other liabilities	4,699	3,661
Net cash provided	17,809	19,118
Cash Flows From Investing Activities:		
Construction expenditures	(18,826)	(13,399)
Net cash used	(18,826)	(13,399)
Cash Flows From Financing Activities:		
Proceeds from issuance of common shares	318	609
Receipt of advances for and contributions in aid of construction	4,031	2,904
Refunds on advances for construction	(484)	(425)
Repayments of long-term debt	(222)	(209)
Net change in notes payable to banks	2,000	(9,000)
Cash received on financing portion of purchased power contracts	667	—
Dividends paid	(3,771)	(3,362)
Net cash provided (used)	2,539	(9,483)
Net increase (decrease) in cash and cash equivalents	1,522	(3,764)
Cash and cash equivalents, beginning of period	4,303	12,775
Cash and cash equivalents, end of period	\$ 5,825	\$ 9,011

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

SOUTHERN CALIFORNIA WATER COMPANY

BALANCE SHEETS
ASSETS
(Unaudited)

<i>(in thousands)</i>	March 31, 2005	December 31, 2004
Utility Plant, at cost		
Water	\$ 739,990	\$ 734,662
Electric	58,664	58,667
	798,654	793,329
Less — Accumulated depreciation	(235,439)	(229,664)
	563,215	563,665
Construction work in progress	77,746	65,136
Net utility plant	640,961	628,801
Other Property and Investments	7,367	7,419
Current Assets		
Cash and cash equivalents	2,727	2,702
Accounts receivable-customers (less allowance for doubtful accounts of \$776 in 2005 and \$758 in 2004)	9,089	10,818
Unbilled revenue	12,565	13,466
Inter-company receivable	934	1,126
Other accounts receivable (less allowance for doubtful accounts of \$234 in 2005 and \$201 in 2004)	1,189	2,465
Income taxes receivable from Parent	—	4,187
Materials and supplies, at average cost	1,425	1,473
Regulatory assets — current	6,251	7,104
Prepayments and other current assets	3,316	3,248
Deferred income taxes — current	1,753	2,795
	39,249	49,384
Regulatory and Other Assets		
Regulatory assets	54,274	54,219
Other accounts receivable	8,503	8,400
Other	8,074	8,053
Total regulatory and other assets	70,851	70,672
Total Assets	\$ 758,428	\$ 756,276

The accompanying notes are an integral part of these financial statements

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

<i>(in thousands)</i>	March 31, 2005	December 31, 2004
Capitalization		
Common shares, no par value	\$ 159,298	\$ 159,290
Earnings reinvested in the business	87,496	87,817
Accumulated other comprehensive loss	(3,259)	(3,259)
Total common shareholder's equity	243,535	243,848
Long-term debt	221,697	221,697
Total capitalization	465,232	465,545
Current Liabilities		
Long-term debt — current	229	282
Accounts payable	13,707	17,196
Inter-company payable	22,878	23,925
Income taxes payable to Parent	766	—
Accrued employee expenses	3,829	3,951
Accrued interest	4,912	1,636
Regulatory liabilities — current	3,701	3,441
Other	9,783	12,601
Total current liabilities	59,805	63,032
Other Credits		
Advances for construction	72,449	70,206
Contributions in aid of construction-net	73,226	72,574
Deferred income taxes	56,288	56,684
Unamortized investment tax credits	2,587	2,609
Accrued pension and other postretirement benefits	10,609	8,793
Regulatory liabilities	11,084	9,731
Other	7,148	7,102
	233,391	227,699
Commitments and Contingencies (Note 9)	—	—
Total Capitalization and Liabilities	\$ 758,428	\$ 756,276

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED MARCH 31, 2005 AND 2004
(Unaudited)

<i>(in thousands)</i>	Three Months Ended	
	March 31,	
	2005	2004
Operating Revenues		
Water	\$ 40,154	\$ 37,461
Electric	7,470	7,627
	<u>47,624</u>	<u>45,088</u>
Operating Expenses		
Water purchased	7,570	8,720
Power purchased for pumping	1,412	1,641
Power purchased for resale	4,137	4,829
Unrealized (gain) loss on power purchased contracts	(3,015)	(557)
Groundwater production assessment	1,921	1,822
Supply cost balancing accounts	1,078	221
Other operating expenses	4,613	4,093
Administrative and general expenses	8,819	7,736
Depreciation and amortization	5,357	4,937
Maintenance	2,309	2,253
Taxes on income	3,179	1,336
Other taxes	2,160	2,125
Total operating expenses	<u>39,540</u>	<u>39,156</u>
Operating Income	8,084	5,932
Other Income (Loss)		
Other income (loss)	(124)	(188)
Taxes on other income (loss)	73	102
Total other income (loss)	<u>(51)</u>	<u>(86)</u>
Interest Charges		
Interest on long-term debt	3,947	3,935
Other interest and amortization of debt expense	407	192
Total interest charges	<u>4,354</u>	<u>4,127</u>
Net Income	<u>\$ 3,679</u>	<u>\$ 1,719</u>

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY
CASH FLOW STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(Unaudited)

<i>(in thousands)</i>	Three Months Ended	
	March 31,	
	2005	2004
Cash Flows From Operating Activities:		
Net income	\$ 3,679	\$ 1,719
Adjustments for non-cash items:		
Depreciation and amortization	5,357	4,937
Provision for doubtful accounts	139	28
Deferred income taxes and investment tax credits	1,154	915
Unrealized gain on purchased power contracts	(3,015)	(557)
Non-cash compensation expense on stock units issued	8	—
Other — net	350	152
Changes in assets and liabilities:		
Accounts receivable — customers	1,623	2,872
Unbilled revenue	901	1,589
Other accounts receivable	1,140	9,285
Materials and supplies	48	(92)
Prepayments and other current assets	920	1,089
Regulatory assets — supply cost balancing accounts	1,078	221
Other assets	950	(478)
Accounts payable	(3,489)	(4,648)
Inter-company receivable/payable	(2,655)	983
Income taxes receivable/payable from/to Parent	4,953	(415)
Other liabilities	3,727	3,561
Net cash provided	<u>16,868</u>	<u>21,161</u>
Cash Flows From Investing Activities:		
Construction expenditures	(18,127)	(12,848)
Net cash used	<u>(18,127)</u>	<u>(12,848)</u>
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	3,359	2,895
Refunds on advances for construction	(489)	(411)
Repayments of long-term debt	(53)	(54)
Net change in intercompany borrowings	1,800	(12,000)
Cash received on financing portion of purchased power contracts	667	—
Dividends paid	(4,000)	(3,850)
Net cash provided (used)	<u>1,284</u>	<u>(13,420)</u>
Net increase (decrease) in cash and cash equivalents	25	(5,107)
Cash and cash equivalents, beginning of period	2,702	8,306
Cash and cash equivalents, end of period	<u>\$ 2,727</u>	<u>\$ 3,199</u>

The accompanying notes are an integral part of these financial statements

**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 California. SCW also distributes electricity in several California mountain communities. 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 a \$75 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 March 31, 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.

[Table of Contents](#)

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 March 31, 2005, Registrant had \$25.6 million of regulatory assets not accruing carrying costs. Of this amount, \$15.2 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 \$7.2 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 March 31, 2005, \$3.2 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>	March 31, 2005	December 31, 2004
SCW		
Supply cost balancing accounts	\$ 22,710	\$ 23,537
Costs deferred for future recovery on Aerojet case	15,176	15,347
Flow-through taxes, net	7,204	7,733
Electric transmission line abandonment costs	3,517	3,546
Asset retirement obligations	3,134	3,038
Low income balancing accounts	2,274	2,134
General rate case memorandum accounts	1,871	2,168
Refund of water right lease revenues	(6,056)	(5,889)
Revenues subject to refund	(3,487)	(3,487)
Supply cost memorandum accounts net over-collections	(2,040)	(1,818)
Other regulatory assets	1,437	1,842
Total SCW	\$ 45,740	\$ 48,151
CCWC		
Asset retirement obligations	\$ 42	\$ 41
Other regulatory assets/liabilities, net	(514)	144
Total AWR	\$ 45,268	\$ 48,336

Supply Cost Balancing and Memorandum Accounts:

As permitted by the CPUC, SCW maintains electric supply balancing accounts and, prior to November 29, 2001, maintained water supply balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Costs are recorded as expenses and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments or through refunds of previously incurred costs. SCW accrues interest on its supply cost balancing accounts at the prevailing rate for 90-day commercial paper. CCWC does not maintain a supply cost balancing account.

Note 2 — Regulatory Matters (Continued):

Water Memorandum Supply Cost Account – On November 29, 2001, the CPUC ordered water utilities with existing water supply balancing accounts to cease booking amounts to such accounts. In its place, water utilities are now required to establish a memorandum supply cost account. The over- or under-collection of water supply costs is recorded in this memorandum account in a manner similar to the balancing account. In a decision issued on June 19, 2003 related to the memorandum supply cost account, the CPUC concluded that: (i) if a utility is within its 3-year rate case cycle and does not earn in excess of its authorized rate of return, the utility is entitled to recover its costs in the memorandum supply cost account, subject to a reasonableness review by the CPUC; (ii) if a utility is either within or outside of its rate case cycle and earns in excess of its authorized rate-of-return, the utility’s recovery of expenses from the memorandum supply cost account will be reduced by the amount exceeding the authorized rate-of-return, and (iii) a utility is required to seek review of under- and over- collections by filing an advice letter annually.

As of March 31, 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. An additional \$223,000 of net over-collection related to the three months ended March 31, 2005 has also been recorded as a regulatory liability at March 31, 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. Region III had under-collected cumulative balances of \$6.8 million and \$6.6 million at March 31, 2005 and December 31, 2004, respectively, which are subject to earnings tests. A regulatory asset with respect to this under-collection will not be recorded until receipt of a CPUC decision authorizing the recovery of the under-collection.

Electric 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 balancing account is \$22.2 million at March 31, 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 40,194,547 and 40,751,889 kilowatt hours of electricity to its Bear Valley Electric division customers for the three months ended March 31, 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 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. 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 three months ended March 31, 2005, SCW expensed approximately \$101,000 for costs over \$77 per MWh.

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.

Note 2 — Regulatory Matters (Continued):

As of March 31, 2005 and December 31, 2004, approximately \$15.2 million and \$15.3 million, respectively, had 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 the carrying costs pertaining to certain capital investments, which will not be recorded as a regulatory asset until receipt of a CPUC decision authorizing the recovery of the entire memorandum account filed. Management believes the recovery of these costs through rates is probable; however, 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. SCW filed for interim rate relief during the fourth quarter of 2004. This interim rate relief would have provided for an increase in rates of approximately \$6 million over a 10 year period, subject to refund. In January 2005, a joint ruling of the assigned Commissioner and Administrative Law Judge denied SCW's request for an interim amortization. According to the CPUC's ruling, the motion was denied primarily because the hearing on the merits was only weeks away (March 14-15, 2005) and an expected proposed decision, and CPUC action on it, would likely be issued soon thereafter in the second or third quarter of 2005. Management remains of the opinion 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 accumulated in this memorandum account. See Note 9 for further discussion on the Aerojet matter.

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 the Company's request for an appeal. The Company filed with the Supreme Court of California to hear the matter, which was also denied in February of 2005. Pursuant to the order, the apportionment of any lease revenues that SCW may collect in the future 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 months ended March 31, 2005, SCW recorded an additional \$286,000 in the regulatory liability account. In addition, in 2004 SCW began making refunds to customers pursuant to the March 1, 2004 CPUC order. Approximately \$119,000 was refunded to customers during the three months ended March 31, 2005. The refunds will be made over a 9-year period.

CCWC Other Regulatory Assets/Liabilities:

As more fully discussed in Note 9, CCWC received \$1,520,000 from the Fountain Hills Sanitary District pursuant to a settlement agreement reached in February 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 ACC's review of this matter.

There were no other significant changes in regulatory matters during the three months ended March 31, 2005.

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 March 31, 2005 and 2004 there were 673,045 and 476,254 options outstanding, respectively, under these Plans. At March 31, 2005, there were also approximately 27,000 stock units outstanding 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, give 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>	March 31,	
	2005	2004
Weighted average shares outstanding	16,761	15,224
Assumed exercise of stock options	28	31
Assumed stock units are converted to Common Shares	16	—
Weighted average diluted shares	16,805	15,255
Earnings available for common shareholders	\$ 3,764	\$ 1,146
Basic earnings per share	\$ 0.22	\$ 0.08
Diluted earnings per share	\$ 0.22	\$ 0.08

During the three months ended March 31, 2005 and 2004, Registrant issued 12,097 and 24,212 common shares, which totaled approximately \$318,000 and \$609,000, respectively, under the Registrant's Common Share Purchase and Dividend Reinvestment Plan and 401(k) Plan. In addition during the three months ended March 31, 2005, Registrant repurchased 8,609 common shares 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 March 31, 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.

[Table of Contents](#)

Note 4 – Derivative Instruments: Registrant has certain block-forward purchase power contracts that are subject to SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended by SFAS Nos. 138 and 149. A derivative financial instrument or other contract derives its value from another investment or designated benchmark. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets and liabilities, and to measure those instruments at their fair value. Certain of these contracts qualify as an exception provided under SFAS No. 133 for activities that are considered normal purchases and normal sales. These contracts are reflected in the statements of income at the time of contract settlement. During 2002, SCW became a party to block-forward purchase power contracts that qualified as derivative instruments under SFAS No. 133. 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 March 31, 2005 and December 31, 2004. This resulted in a pre-tax unrealized gain of \$3,015,000 and \$557,000 for the three months ended March 31, 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 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 5 – Income Taxes

Income taxes as presented on the Statements of Income were as follows:

	AWR	
	For The Three Months Ended	
	March 31,	
(dollars in thousands)	2005	2004
Income taxes included in operating expenses	\$ 3,216	\$ 942
Income taxes included in other income and expenses	(72)	(99)
Total income tax expense	\$ 3,144	\$ 843

The reconciliations of the effective tax rates to the federal statutory rate are as follows:

	AWR	
	For The Three Months Ended	
	March 31,	
(dollars in thousands, except percent)	2005	2004
Federal taxes on pretax income at statutory rate	\$ 2,418	\$ 696
Increase (decrease) in taxes resulting from:		
State income tax, net of federal benefit	400	107
Flow through on fixed assets	81	81
Other flow through items	238	(54)
Investment tax credit	(23)	(23)
Other – net	30	36
Total income tax expense	\$ 3,144	\$ 843
Pretax income	\$ 6,908	\$ 1,989
Effective income tax rate	45.5%	42.4%

[Table of Contents](#)**Note 5 – Income Taxes (Continued):**

	SCW	
	For The Three Months Ended	
	March 31,	
	2005	2004
<i>(dollars in thousands)</i>		
Income taxes included in operating expenses	\$ 3,179	\$ 1,336
Income taxes included in other income and expenses	(73)	(102)
Total income tax expense	\$ 3,106	\$ 1,234

	SCW	
	For The Three Months Ended	
	March 31,	
	2005	2004
<i>(dollars in thousands, except percent)</i>		
Federal taxes on pretax income at statutory rate	\$ 2,375	\$ 1,034
Increase (decrease) in taxes resulting from:		
State income tax, net of federal benefit	406	162
Flow through on fixed assets	81	81
Other flow through items	238	(54)
Investment tax credit	(23)	(23)
Other – net	29	34
Total income tax expense	\$ 3,106	\$ 1,234
Pretax income	\$ 6,785	\$ 2,953
Effective income tax rate	45.8%	41.8%

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. 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 has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on Registrant’s tax return. Regulatory treatment of the deduction has not been established and 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 months ended March 31, 2005 was not material.

[Table of Contents](#)

Note 6 – 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 March 31, 2005, an aggregate of 12,000 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 March 31, 2005, the directors have been credited with approximately 27,000 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:

	Three Months Ended March 31,	
	2005	2004
<i>(dollars in thousands, except EPS)</i>		
Earnings available to common shareholders:		
As reported	\$ 3,764	\$ 1,146
Add: Stock-based compensation expense included in reported net income, net of tax	5	—
Less: Stock-based compensation expense determined under the fair-value accounting method, net of tax	(566)	(412)
Pro forma	<u>\$ 3,203</u>	<u>\$ 734</u>
Basic earnings per share:		
As reported	\$ 0.22	\$ 0.08
Pro forma	\$ 0.19	\$ 0.05
Diluted earnings per share:		
As reported	\$ 0.22	\$ 0.08
Pro forma	\$ 0.19	\$ 0.05

[Table of Contents](#)

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 months ended March 31, 2005 and 2004 are as follows:

(dollars in thousands)

	Pension Benefits		Other Postretirement Benefits		SERP	
	2005	2004	2005	2004	2005	2004
Components of Net Periodic Benefits						
Cost:						
Service Cost	\$ 927	\$ 701	\$ 109	\$ 101	\$ 32	\$ 32
Interest Cost	1,044	906	151	148	28	31
Expected Return on Plan Assets	(918)	(830)	(74)	(64)	—	—
Amortization of Transition	—	—	105	105	—	—
Amortization of Prior Service Cost	41	40	(50)	(50)	38	37
Amortization of Actuarial (Gain) Loss	260	90	41	30	(10)	—
Net Periodic Pension Cost	\$ 1,354	\$ 907	\$ 282	\$ 270	\$ 88	\$ 100

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 months ended March 31, 2005.

Note 8 — New Accounting Pronouncements:

In March 2005, the Financial Accounting Standards Board (“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 6 which summarizes the pro forma impact of recognizing stock expense under the fair value accounting method.

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 5 for further information.

Note 9 – 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, according to proof at trial, as well as attorney’s fees on certain causes of action, costs of suit, and other unspecified relief. SCW was also named as a defendant in three lawsuits that involved a customer service area located in Sacramento County in northern California.

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.

As for the three lawsuits in Sacramento County, one of the three Plaintiffs filed for dismissal in July 2004 and the case has subsequently been dismissed by the Court. On October 15, 2004, the remaining two cases were also ordered dismissed by the Court. The claims have been permanently dismissed since the Plaintiffs failed to file a “Notice of Appeal” within the allotted time of 60 days.

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 to comply with certain contamination remediation requirements for future recovery.

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 in a defined area within Aerojet property in Eastern Sacramento County and the receipt of certain fees in connection with such development.

Note 9 – Contingencies (Continued):

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. As a result of this arrangement and other mitigation measures, SCW should have a reliable water supply for its Rancho Cordova service area. Registrant and Aerojet have also signed three separate agreements requiring Aerojet to pay for certain transmission pipelines and upgrades to Registrant's Coloma Treatment Plant as a contingency plan, should additional wells be impacted. The value of the three agreements approximates \$6.8 million in capital improvements. The pipelines are now in service and the 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 March 31, 2005, approximately \$15.2 million in legal and consulting related costs, including the unamortized portion of the \$1.8 million, has been recorded as deferred charges and included in "Regulatory Assets" on the SCW balance sheets.

In a proceeding currently pending at the CPUC, SCW has requested a twenty-year amortization of the remaining balance of the costs recorded in the memorandum account, net of any reimbursement amounts received from defendants, insurers and others. Given the expected timing for the issuance of a final decision in this proceeding (third quarter 2005), SCW filed a motion seeking another interim amortization in December 2004. In this motion, SCW proposed to amortize \$6 million of the \$15.2 million of the memorandum account balance over a 10 year period, and to increase rates accordingly, subject to refund. In January 2005, a joint ruling of the assigned Commissioner and Administrative Law Judge denied SCW's request for an interim amortization. According to the CPUC's ruling, the motion was denied primarily because the hearing on the merits was only weeks away (March 14-15, 2005) and an expected proposed decision, and CPUC action on it, would likely be issued soon thereafter in the second or third quarter of 2005. Management remains of the opinion 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 accumulated in this memorandum account. Management will continue to monitor the rate making process for this matter and assess the probability of recovery of these costs on a quarterly basis. Furthermore, it is management's intention to offset any settlement proceeds from Aerojet 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, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority (WQA), in federal court 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).

Note 9 – Contingencies (Continued):

Registrant has, pursuant to permission of the court, amended its suit to claim certain affirmative defenses as an “innocent” party under CERCLA. 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. 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.

On August 29, 2003, the US Environmental Protection Agency 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.

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 the Company about the rates charged by the Company 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 that City. Such value was determined by the consultant at \$46 million. Registrant disagrees with the City’s valuation assessment. As of March 31, 2005, the recorded net book value of the Claremont water system is approximately \$33 million. SCW has had meetings with the City to discuss various concepts such as a public private partnership where the City and the Company could work together to resolve the City’s concerns. While the City has publicly disclosed some of its proposals in its City Council meetings, to date, there has been no agreement reached between the Company and the City that alleviates the City’s concerns.

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 its 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.

Note 9 – Contingencies (Continued):

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. As of March 31, 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. Management believes that when the adjudication lawsuit is finally resolved, SCW will have secured its right to pump groundwater from the Basin and to continue to rely on the Basin as a source of supply for its customers' needs. 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 accumulated with this lawsuit.

CCWC

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 shall: (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 three months ended March 31, 2005, CCWC has recognized a net gain of \$760,000 related to this settlement agreement.

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.

[Table of Contents](#)

Note 10 — 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.

(dollars in thousands)

	As of and for The Three Months Ended March 31, 2005				
	SCW				Consolidated AWR
	Water	Electric	CCWC Water	Other*	
Operating revenues	\$ 40,154	\$ 7,470	\$ 1,343	\$ 827	\$ 49,794
Operating income (loss) before income taxes	7,811	3,452	980	(554)	11,689
Interest expense, net	3,950	404	120	186	4,660
Identifiable assets	601,032	39,929	35,317	461	676,739
Depreciation and amortization expense	4,862	495	261	17	5,635
Capital additions	17,449	678	588	111	18,826

(dollars in thousands)

	As of and for the Three Months Ended March 31, 2004					
	SCW				Eliminations	Consolidated AWR
	Water	Electric	CCWC Water	Other*		
Operating revenues	\$ 37,461	\$ 7,627	\$ 1,281	\$ 305	(\$23)	\$ 46,651
Operating income (loss) before income taxes	6,350	918	111	(887)		6,492
Interest expense, net	3,789	338	122	72		4,321
Identifiable assets	540,212	38,111	31,767	116		610,206
Depreciation and amortization expense	4,527	410	236	4		5,177
Capital additions	11,110	1,738	527	24		13,399

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

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

Forward-Looking Information

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the “safe harbor” from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Registrant “believes,” “anticipates,” “expects” or words of similar import. Similarly, statements that describe Registrant’s future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, SCW’s ability to recover electric, natural gas and water supply costs from ratepayers, contract operations, liquidity and capital resources, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as changes in utility regulation, including ongoing local, state and federal activities; recovery of regulatory assets not yet included in rates; future economic conditions, including changes in customer demand and changes in water and energy supply cost; future climatic conditions, including the recent wet winter in the Southern California and Phoenix areas; and legislative, legal proceedings, regulatory and other circumstances affecting anticipated revenues and costs.

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”). AWR was incorporated as a California corporation in 1998 as a holding company for SCW.

SCW is a California public utility company engaged principally in the purchase, production and distribution of water (SIC No. 4941). SCW also distributes electricity in one customer service area (SIC No. 4911). SCW is regulated by the Public Utilities Commission of the State of California (CPUC) and was incorporated as a California corporation on December 31, 1929. SCW is organized into one electric customer service area and three water service regions operating within 75 communities in 10 counties in the State of California and provides water service in 21 customer service areas. Region I consists of 7 customer service areas in northern and central California; Region II consists of 4 customer service areas located in Los Angeles County; and Region III consists of 10 customer service areas in eastern Los Angeles County, and in Orange, San Bernardino and Imperial counties. SCW also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County through its Bear Valley Electric Service division.

SCW served 251,715 water customers and 22,675 electric customers at March 31, 2005, or a total of 274,390 customers, compared with 272,891 total customers at March 31, 2004. SCW’s utility operations exhibit seasonal trends. Although SCW’s water utility operations have a diversified customer base, residential and commercial customers account for the majority of SCW’s water sales and revenues. Revenues derived from commercial and residential water customers accounted for approximately 94.4% of total water revenues for the three months ended March 31, 2005, as compared to 95.7% for the three months ended March 31, 2004.

CCWC is an Arizona public utility company serving 12,645 customers as of March 31, 2005, compared with 12,258 customers at March 31, 2004. Located in the town of Fountain Hills, Arizona and a

Table of Contents

portion of the City of Scottsdale, Arizona, the majority of CCWC's customers are residential. The Arizona Corporation Commission (ACC) regulates CCWC.

ASUS contracts, either directly or through wholly-owned subsidiaries, with various municipalities, the U.S. Government and private entities to provide water and wastewater services, including billing and meter reading, water marketing and the operation and maintenance of water and wastewater systems. ASUS had approximately 94,670 billing accounts under contract as of March 31, 2005 compared to 125,770 billing accounts under contract as of March 31, 2004 as a result of a decision by the City of Chino Hills to no longer outsource meter reading. The term of our meter reading contract with the City of Chino Hills for 20,100 billing accounts expired in March 2005.

On October 1, 2004, ASUS commenced operation of the water and wastewater systems at Fort Bliss located near El Paso, Texas, through FBWS, pursuant to the terms of a 50-year contract with the U.S. Government. This contract is subject to termination for convenience of the U.S. Government. The contract price is subject to re-determination on October 1, 2006 and every three years thereafter to the extent provided in the contract. Prices are also subject to equitable adjustment based upon changes in circumstances and changes in wages and fringe benefits to the extent provided in the contract. ASUS is also a participant in bidding on other contracts for the privatization of water and wastewater services at military bases.

ASUS continues to pursue opportunities to expand its contract operations. ASUS is also pursuing an opportunity to provide retail water services to a mutual water company that is located in Sacramento and Sutter counties in northern California which currently provides water service only to agricultural customers. In August 2004, this mutual water company granted ASUS the exclusive right to market surplus surface water rights that may arise under water rights and contracts owned or controlled by it to third parties.

[Table of Contents](#)**Consolidated Results of Operations – Three Months Ended March 31, 2005 and 2004**

	3 MOS ENDED 3/31/2005	3 MOS ENDED 3/31/2004	\$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	\$ 41,497	\$ 38,742	\$ 2,755	7.1%
Electric	7,470	7,627	(157)	-2.1%
Other	827	282	545	193.3%
Total operating revenues	49,794	46,651	3,143	6.7%
OPERATING EXPENSES				
Water purchased	7,686	8,881	(1,195)	-13.5%
Power purchased for pumping	1,487	1,717	(230)	-13.4%
Groundwater production assessment	1,921	1,822	99	5.4%
Power purchased for resale	4,137	4,829	(692)	-14.3%
Unrealized gain on purchased power contracts	(3,015)	(557)	(2,458)	441.3%
Gain on settlement for removal of wells	(760)	—	(760)	-100.0%
Supply cost balancing accounts	1,078	221	857	-387.8%
Other operating expenses	5,069	4,437	632	14.2%
Administrative and general expenses	10,129	9,079	1,050	11.6%
Depreciation and amortization	5,635	5,177	458	8.8%
Maintenance	2,466	2,327	139	6.0%
Taxes on income	3,216	942	2,274	241.4%
Other taxes	2,272	2,226	46	2.1%
Total operating expenses	41,321	41,101	220	0.5%
Operating income	8,473	5,550	2,923	52.7%
OTHER INCOME (LOSS) — NET	(49)	(83)	34	-41.0%
INTEREST CHARGES	4,660	4,321	339	7.8%
NET INCOME	\$ 3,764	\$ 1,146	\$ 2,618	228.4%

Net income for the three months ended March 31, 2005 increased 228.4% to \$3.8 million, equivalent to \$0.22 per common share on a basic and fully diluted basis, compared to \$1.1 million or \$0.08 per share for the three months ended March 31, 2004. The increase in recorded results reflects the significant increase in the unrealized gain on purchased power contracts due to increasing energy prices. This unrealized gain for the three months ended March 31, 2005 added approximately \$0.10 per share to the first quarter of 2005, as compared to the unrealized gain of \$0.02 per share for the same period of 2004. Additionally, rate increases in most of SCW's service areas contributed to higher water revenues.

Operating Revenues

For the three months ended March 31, 2005, revenues from water operations increased by 7.1% to \$41.5 million, compared to \$38.7 million for the three months ended March 31, 2004. Higher water revenues reflect rate increases since late first quarter of 2004 and additional increases in the first quarter of 2005 covering almost all of SCW's water customers which contributed \$4.1 million in increased revenues. This was partially offset by a decrease of 6.7% in billed water consumption resulting from changes in weather conditions that resulted in a decrease in revenues of approximately \$1.3 million. Differences in temperature and rainfall in Registrant's service areas impact sales of water to customers, causing fluctuations in Registrant's revenues and earnings between comparable periods.

For the three months ended March 31, 2005, revenues from electric operations decreased by 2.1% to \$7.5 million compared to \$7.6 million for the three months ended March 31, 2004. The decrease reflects primarily a 1.4% decrease in kilowatt-hour consumption due to recent weather conditions which decreased the usage of snow-blowing machines and prevented customers from reaching their Big Bear homes due to road closures.

Registrant relies upon rate approval by state regulatory agencies in California and Arizona, in order to recover operating expenses and provide for a return on invested and borrowed capital used to fund utility plant. Without such adequate rate relief granted in a timely manner, revenues and earnings can be negatively impacted.

For the three months ended March 31, 2005, other operating revenues increased by 193.3% to \$827,000 compared to \$282,000 for the three months ended March 31, 2004 due primarily to approximately \$543,000 of additional revenues associated with the operation of the water and wastewater systems at Fort Bliss, located near El Paso, Texas that commenced on October 1, 2004 pursuant to the terms of a 50-year contract with the U.S. Government.

Operating Expenses

For the three months ended March 31, 2005, 42.8% of the Company's supply mix was purchased water as compared to 44.9% purchased water for the three months ended March 31, 2004. Purchased water costs decreased by 13.5% to \$7.7 million compared to \$8.9 million for the three months ended March 31, 2004. The decrease is due primarily to a decline in customer demand resulting from lower consumption and a change in the supply mix caused by less purchased water needed to replace groundwater supply lost due to wells that were removed from service in the prior year but are now pumping again.

For the three months ended March 31, 2005, the cost of power purchased for pumping decreased by 13.4% to \$1.5 million compared to \$1.7 million for the three months ended March 31, 2004 due to a decrease in KWh usage caused by a decrease in customer demand. This decrease was partially offset by an increase in pumping compared to the prior year due to several wells that were back online as discussed above.

For the three months ended March 31, 2005, groundwater production assessments increased by 5.4% as compared to the three months ended March 31, 2004 due to increases in well production in Region II resulting from wells coming online. There were also increases in assessment rates levied against groundwater production, effective July 2004. Pump tax rates increased in Regions II and III by approximately 11% and 15%, respectively. These increases were partially offset by a reduction in well production in Region III caused by a decrease in customer demand.

Table of Contents

Changes in the water resource mix between water supplied from purchased sources and that supplied from Registrant's own wells can increase/decrease actual supply-related costs relative to that approved for recovery through rates, thereby impacting earnings either negatively or positively. Registrant has the opportunity to change the supply-related costs recovered through rates by application to the appropriate regulatory body. Registrant believes that its applications for recovery of supply-related costs accurately reflect the water supply situation as it is known at the time. However, it is impossible to adequately protect earnings from adverse changes in supply costs related to unforeseen contamination or other loss of water supply.

For the three months ended March 31, 2005, cost of power purchased for resale to customers in SCW's Bear Valley Electric division decreased by 14.3% to \$4.1 million compared to \$4.8 million for the three months ended March 31, 2004. The decrease was due primarily to the reversal in the first quarter of 2004 of a \$644,000 gain generated from a one-time sale of energy on the spot market in April 2001. The gain, which was previously recorded in April 2001 to the supply cost balancing account, was ordered by the Federal Energy Regulatory Commission ("FERC") in March 2004 to be refunded, plus interest, to Mirant Americas Energy Marketing, Inc. ("Mirant Marketing"). This refund increased the cost of power purchased for resale, with a corresponding decrease in the supply cost balancing account included in the statement of income. There was no net impact on earnings. The sale of excess energy on the spot market in 2001 resulted from a one-month overlap of energy purchase agreements.

Unrealized gain and loss on purchased power contracts represents gains and losses recorded for SCW's purchased power agreements with Pinnacle West Capital Corporation ("PWCC"), which qualify as derivative instruments under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*". The \$3,015,000 pretax unrealized gain on purchased power contracts for the three months ended March 31, 2005 is due to an increase in the current forward market prices since December 31, 2004. Unrealized gains and losses at Bear Valley Electric will continue to impact earnings during the life of the contract with PWCC, which terminates in 2008.

For the three months ended March 31, 2005, Registrant recorded a net pre-tax gain of \$760,000 on a settlement reached with the Fountain Hills Sanitary District ("FHSD") in February 2005 for the recapping of two CCWC wells in order to facilitate FHSD's ability to secure certain permits. Pursuant to the settlement agreement, CCWC agreed to permanently remove from service and cap one of its wells, and cap another well which had never been used as a potable source of supply.

An increase of \$857,000 during the three months ended March 31, 2005 in the provision for supply cost balancing accounts as compared to the three months ended March 31, 2004 primarily reflects the \$644,000 refund to Mirant Marketing in March 2004, previously discussed in cost of power purchased for resale. In addition, there was the recording of \$223,000 net over-collection in the water memorandum supply cost accounts as a regulatory liability during the first quarter of 2005, with a corresponding charge booked to the provision for supply cost balancing account. The recording of this net over-collection resulted from SCW's filing of advice letters related to the memorandum supply cost accounts which began during the second quarter of 2004. As a result, in May 2004, SCW began recording the net over-collections as regulatory liabilities. There was also an increase of approximately \$101,000 resulting from amounts over \$77 per MWh that were expensed. These increases were partially offset by a decrease of \$110,000 in amortization primarily related to pre-November 2001 water supply cost balancing accounts.

For the three months ended March 31, 2005, other operating expenses increased by 14.2% to \$5.1 million compared to \$4.4 million for the three months ended March 31, 2004 due primarily to: (i) higher labor costs which increased by approximately \$411,000; (ii) higher operating expenses of \$130,000 at ASUS due to the commencement of operations of the water and wastewater system at Fort Bliss; and (iii) increases in various other operating expenses.

Table of Contents

For the three months ended March 31, 2005, administrative and general expenses increased by 11.6% to \$10.1 million compared to \$9.1 million for the three months ended March 31, 2004 due to: (i) approximately \$389,000 increase in outside services primarily related to Sarbanes-Oxley compliance requirements, (ii) approximately \$263,000 increase in pensions and benefits due to actuarial assumption changes in the discount rate and mortality tables, and increases in various benefit costs, (iii) approximately \$261,000 increase in labor costs, and (iv) approximately \$183,000 increase in general rate case expenses. Registrant believes that prudent administrative expenses approved in advance by state regulators to be incurred in the operation and management of its regulated subsidiaries will be recovered through water and electric rates. Amounts included in each general rate case are estimated for future years. Overages from those estimates are not covered in rates.

For the three months ended March 31, 2005, depreciation and amortization expense increased by 8.8% to \$5.6 million compared to \$5.2 million for the three months ended March 31, 2004 reflecting, among other things, the effects of recording approximately \$71 million in additions to utility plant during 2004, depreciation on which began in January 2005. Registrant anticipates that depreciation expense will continue to increase due to Registrant's on-going construction program at its regulated subsidiaries. Registrant believes that depreciation expense related to property additions approved by the appropriate regulatory agency will be recovered through water and electric rates.

For the three months ended March 31, 2005, maintenance expense increased by 6.0% to \$2.5 million compared to \$2.3 million for the three months ended March 31, 2004 due principally to an increase in required maintenance on SCW's wells and water supply sources, acceleration of certain scheduled maintenance projects and increases in maintenance expenses for ASUS due to the Fort Bliss operations which began in October 2004. Maintenance expense increases for regulated activities are included in each general rate case and are covered in rates, unless disallowed as not reasonable or prudent.

FBWS bears the risk of increases in maintenance and all other costs above those authorized in the contract for operation of Fort Bliss, unless FBWS is entitled to an equitable adjustment for such matters as an increase in labor rates, changes in circumstances or differing site conditions from those anticipated at the time of execution of the contract.

For the three months ended March 31, 2005, taxes on operating income increased by 241.4% to \$3.2 million compared to \$942,000 for the three months ended March 31, 2004 due, in part, to an increase in pretax operating income of 247%. In addition, the effective income tax rate ("ETR") applicable to the three months ended March 31, 2005 reflects an increase of approximately three percentage points to 45.5% as compared to a 42.4% ETR applicable to the three months ended March 31, 2004. Associated with this increase was a net positive increase in differences (principally related to compensatory, bad debts and deferred rate case expenses) between book and taxable income that are treated as flow-through items. Positive flow-through differences increase tax expense in one year, with an offsetting decrease in tax expense occurring in another year.

For the three months ended March 31, 2005, other taxes increased by 2.1% to \$2.3 million compared to \$2.2 million for the three months ended March 31, 2004 reflecting additional property taxes resulting from higher assessed values, and increases in payroll taxes based on increased labor costs.

Interest Charges

For the three months ended March 31, 2005, interest expense increased by 7.8% to \$4.7 million compared to \$4.3 million for the three months ended March 31, 2004 due primarily to increases in short-term borrowings. In addition, during the first quarter of 2004 SCW recorded the recovery of carrying costs of approximately \$168,000 on the costs incurred in the water quality Order Instituting Investigation matter authorized by the CPUC in March 2004. There was no corresponding recovery in 2005.

Critical Accounting Policies

Critical accounting policies are those that are important to the portrayal of AWR's financial condition, results of operations and cash flows, and require the most difficult, subjective or complex judgments of AWR's management. The need to make estimates about the effect of items that are uncertain is what makes these judgments difficult, subjective and/or complex. Management makes subjective judgments about the accounting and regulatory treatment of many items. These judgments are based on AWR's historical experience, terms of existing contracts, AWR's observance of trends in the industry, information provided by customers and information available from other outside sources, as appropriate. Actual results may differ from these estimates under different assumptions or conditions.

The critical accounting policies used in the preparation of the Registrant's financial statements that we believe affect the more significant judgments and estimates used in the preparation of our consolidated financial statements presented in this report are described in "*Management's Discussion and Analysis of Financial Condition and Results of Operation*" included in our Annual Report on Form 10-K for the year ended December 31, 2004. There have been no material changes to the critical accounting policies.

Liquidity and Capital Resources

AWR

AWR funds its operating expenses and pays dividends on its outstanding Common Shares primarily through dividends from its subsidiaries, principally SCW.

Net cash provided by operating activities was \$17.8 million for the three months ended March 31, 2005 as compared to \$19.1 million for the three months ended March 31, 2004. The decrease of \$1.3 million was primarily attributable to the receipt in the first quarter of 2004 of \$8.7 million from Aerojet in connection with the Memorandum of Understanding (MOU) which accounted for the change in other accounts receivable. This decrease was offset by: (i) a reduction of \$2.4 million in taxes paid in the first quarter of 2005 as compared to first quarter of 2004; (ii) the receipt in the first quarter of 2005 of \$1.5 million by CCWC in connection with a settlement agreement with the Fountain Hills Sanitary District; and (iii) changes in the timing of cash receipts from customers accounts receivable and disbursements related to other working capital items.

Net cash used in investing activities was \$18.8 million for the three months ended March 31, 2005 as compared to \$13.4 million for the three months ended March 31, 2004 due to higher capital expenditures consistent with budgeted increases.

Net cash provided by (used in) financing activities was \$2.5 million for the three months ended March 31, 2005 as compared to (\$9.5 million) for the three months ended March 31, 2004. The increase in net cash provided was due primarily to an increase of \$11 million in short-term bank borrowing against the revolving credit line and by a \$1.1 million increase in receipt of advances for and contributions in aid of construction. These increases were offset by a \$291,000 decrease in proceeds from the issuance of common shares.

In June 2002, AWR established a \$75 million revolving credit facility, which matures in June 2005. Up to \$15 million of this facility may be used for letters of credit. As of March 31, 2005, an aggregate of \$47 million in cash borrowing included in current liabilities and approximately \$11.2 million of letters of credit were outstanding under this facility. AWR plans to renew and possibly increase the revolving credit facility prior to its expiration.

Table of Contents

Registrant anticipates that interest costs will increase in future periods due to the need for additional external capital to fund its construction program, potential general market interest rate increases and the April, 2004 downgrade of AWR's credit rating by Standard & Poor's Ratings Service (S&P) from A+ to A- with a negative outlook. S&P debt ratings range from AAA (highest rating possible) to D (obligation is in default). Securities ratings are not recommendations to buy, sell or hold a security and are subject to change or withdrawal at any time by the rating agency. Registrant believes that costs associated with capital used to fund construction at its regulated subsidiaries will continue to be recovered in water and electric rates charged to customers.

SCW

Net cash provided by operating activities was \$16.9 million for the three months ended March 31, 2005 as compared to \$21.2 million for the three months ended March 31, 2004. The decrease of \$4.3 million in cash provided by operations was primarily attributable to the receipt in the first quarter of 2004 of \$8.7 million from Aerojet in connection with the MOU. This was offset by a \$5.4 million decrease in taxes paid in the first quarter of 2005 as compared to 2004. There were also changes in the timing of cash receipts from customers accounts receivable and disbursements related to other working capital items.

Net cash used in investing activities increased to \$18.1 million for the three months ended March 31, 2005 as compared to \$12.8 million for the same period of 2004 due to increased capital expenditures consistent with budgeted increases.

Net cash provided by (used in) financing activities was \$1.3 million for the three months ended March 31, 2005 as compared to (\$13.4 million) for the three months ended March 31, 2004, reflecting primarily an increase of \$13.8 million in inter-company borrowings. There was also a \$464,000 increase in receipt of advances for and contributions in aid of construction.

SCW funds the majority of its operating expenses, payments on its debt, and dividends on its outstanding Common Shares through internal sources. Internal sources of cash flow are provided primarily by retention of a portion of earnings from operating activities. Internal cash generation is influenced by factors such as weather patterns, environmental regulation, litigation, changes in supply costs and regulatory decisions affecting SCW's ability to recover these supply costs, and timing of rate relief.

SCW also relies on external sources, including equity investments and short-term borrowings from AWR, long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures. SCW has a Registration Statement on file with the SEC for issuance from time to time, of up to \$100 million of debt securities. As of March 31, 2005, \$50 million remained for issuance under this Registration Statement. Depending on market conditions, SCW plans to issue debt under this Registration Statement during the second or third quarter of 2005 to pay down borrowings from AWR. AWR intends to use any funds received from SCW to pay down its borrowings under the revolving credit facility.

In February 2005, Moody's Investor Services ("Moody's") changed the rating outlook for \$175 million of senior unsecured debt at SCW from A2 negative to A2 stable. Moody's debt ratings range from Aaa (best quality) to C (lowest quality). SCW currently has a debt rating of A- with negative outlook by S&P. Securities ratings are not recommendations to buy, sell or hold a security and are subject to change or withdrawal at any time by the rating agency.

[Table of Contents](#)

CCWC

CCWC funds the majority of its operating expenses, payments on its debt and dividends, if any, through internal operating sources. CCWC also relies on external sources, including long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures.

ASUS

ASUS funds its operating expenses primarily through management fees and investments by or loans from AWR. In addition, ASUS's wholly-owned subsidiary, FBWS, commenced operation of the water and wastewater systems at Fort Bliss pursuant to the terms of the 50-year contract with the U.S. Government. The amounts charged by FBWS for water and wastewater services at U.S. Army Fort Bliss are based upon the terms of the 50-year contract between FBWS and the U.S. Government. Under the terms of this agreement, FBWS has agreed to own, operate and maintain the water and wastewater systems at Fort Bliss for a net fixed price of \$181,206 for operation and maintenance, and \$147,146 for renewals and replacements per month for a period of two years. Prices will be re-determined at the end of the two year period and every three years thereafter. In addition, prices may be equitably adjusted for changes in law and other circumstances.

Contractual Obligations and Other Commitments

In addition to contractual maturities, Registrant has certain debt instruments that contain annual sinking fund or other principal payments. Registrant believes that it will be able to refinance debt instruments at their maturity through public issuance, or private placement, of debt or equity. Annual principal and interest payments are generally made from cash flow from operations.

The following table reflects Registrant's contractual obligations and commitments to make future payments pursuant to contracts as of March 31, 2005. All obligations and commitments are obligations and commitments of SCW unless otherwise noted.

(\$ in thousands)	Payments/Commitments Due by Period (1)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Notes/Debentures(2)	\$ 173,100	—	—	—	\$ 173,100
Private Placement Notes(3)	28,000	—	—	—	28,000
Tax-Exempt Obligations(4)	18,816	72	160	181	18,403
Other Debt Instruments(5)	2,010	157	445	460	948
Interest on Long-Term Debt(6)	394,338	15,780	32,814	32,726	313,018
Advances for Construction(7)	84,036	3,038	6,257	5,627	69,114
Purchased Power Contracts(8)	44,212	11,973	23,947	8,292	—
Purchase Obligations(9)	26,826	26,826	—	—	—
Water Purchase Agreements (10)	64,876	16,972	30,310	5,773	11,821
Operating Leases(11)	4,728	1,910	2,248	570	—
Employer Contributions(12)	19,260	5,363	9,954	3,943	—
Chaparral City Water Co. (13)	14,344	1,718	1,011	1,001	10,614
SUB-TOTAL	\$874,546	\$ 83,809	\$ 107,146	\$ 58,573	\$ 625,018
Other Commitments(14)	52,192	—	—	—	—
TOTAL	\$926,738	—	—	—	—

Table of Contents

- (1) Excludes dividends and facility fees.
- (2) The Notes and Debentures are issued under an Indenture dated as of September 1, 1993. The Notes and Debentures do not contain any financial covenants that Registrant believes to be material, or cross default provisions.
- (3) The private placement notes were issued pursuant to the terms of Note Agreements with substantially similar terms. The Note Agreements contain restrictions on the payment of dividends, minimum interest coverage requirements, a maximum debt to capitalization ratio and a negative pledge. Pursuant to the Note Agreements, SCW must maintain a minimum interest coverage ratio of two times interest expense. SCW does not currently have any outstanding mortgages or other encumbrances on its properties.
- (4) Consist of obligations under a loan agreement supporting \$7.9 million in outstanding debt issued by the California Pollution Control Financing Authority, \$6 million in obligations supporting \$6 million in certificates of participation issued by the Three Valleys Municipal Water District and \$4.9 million of obligations incurred by SCW with respect to its 500 acre foot entitlement to water from the State Water Project (SWP). These obligations do not contain any financial covenants believed to be material to Registrant or any cross default provisions. SCW's obligations with respect to the certificates of participation issued by the Three Valleys Municipal Water District are supported by a letter of credit issued by Wells Fargo Bank. In regards to its SWP entitlement, SCW has entered into agreements with various developers for 422 acre-feet, in aggregate, of its 500 acre-foot entitlement to water from the SWP.
- (5) Consists of \$1.3 million outstanding under a fixed rate obligation incurred to fund construction of water storage and delivery facilities with the Three Valleys Municipal Water District, \$0.5 million outstanding under a variable rate obligation incurred to fund construction of water delivery facilities with the Three Valleys Municipal Water District and an aggregate of \$0.2 million outstanding under capital lease obligations. These obligations do not contain any financial covenants believed to be material to Registrant or any cross default provisions.
- (6) Consists of expected interest expense payments assuming Registrant's long-term debt remains outstanding until maturity. Current interest rates were used to estimate expected interest expense payments on variable long-term debt.
- (7) Advances for construction represent annual contract refunds to developers for the cost of water systems paid for by the developers. The advances are generally refundable at rates ranging from 10% to 22% of the revenue received from the installation for which funds were advanced or in equal annual installments over periods of time ranging from 10 to 40-year periods.
- (8) Consists of the remaining balance of the purchased power contracts through December 2008.
- (9) Consists of non-cancelable commitments primarily for capital projects under signed contracts.
- (10) Water purchase agreements consist of (i) contracts with various governmental entities to purchase imported water for an aggregate remaining commitment of \$57.7 million which expire on an agreement-by-agreement basis between 2008 and 2012; (ii) a remaining amount of \$3 million under an agreement with the City of Claremont to lease water rights that were ascribed to the City as part of the Six Basins adjudication (the initial term expires in 2028 with an option to renew this agreement for 10 more years); and (iii) an aggregate amount of \$4.2 million of other water purchase commitments with other third parties. In some cases, the amount of the commitment is estimated based on current rates per acre-foot of water purchased. These rates may be changed annually.
- (11) Reflects Registrant's future minimum payments under non-cancelable operating leases.
- (12) Consists of Registrant's expected contributions (all by employer) for its pension and postretirement plans. These amounts are subject to change based on, among other things, the limits established for federal tax deductibility (pension plan). The estimated minimum required contributions to the pension plan were computed by our actuary and are subject to change based on the significant impact that return on plan assets and changes in discount rates might have on such amounts.
- (13) Consists of \$7.4 million of outstanding obligations under a loan agreement supporting Industrial Development Revenue Bonds due in 2006 and a \$0.2 million outstanding repayment obligation to the

Table of Contents

United States Bureau of Reclamation (Bureau). The loan agreement contains provisions that establish a maximum of 65% debt in the capital structure, limits cash distributions when the percentage of debt in the capital structure exceeds 55% and requires a debt service coverage ratio of two times. The Bureau obligation does not contain any financial covenants believed to be material to Registrant or any cross default provisions. In addition, CCWC has a long-term water supply contract with the Central Arizona Conservation District (the "District") through September 2033, and is entitled to take 6,978 acre feet of water per year from Central Arizona Project. The maintenance rate for such water delivered is set by the District and is subject to annual increases. The estimated remaining commitment under this contract is \$5.6 million as of March 31, 2005. Furthermore, CCWC has entered into a commitment with the District to purchase 1,931 acre feet per year of additional water rights for an estimated amount of \$1.1 million as of March 31, 2005. The price is subject to further adjustment and is expected to increase annually until final written agreement is executed which is expected in 2005.

- (14) Other commitments consist of (i) \$75 million syndicated revolving credit facility, expiring in October 2005 of which \$47.0 million is outstanding as of March 31, 2004, (ii) an amount of \$296,000 with respect to a \$6,296,000 irrevocable letter of credit issued by Wells Fargo Bank to support the certificates of participation of Three Valleys Municipal Water District (the other \$6,000,000 is reflected under tax-exempt obligations), (iii) an irrevocable letter of credit in the amount of \$700,000 that expires in October 2005 for the deductible in Registrant's business automobile insurance policy, (iv) an irrevocable letter of credit that expires October 5, 2005 for its energy scheduling agreement with Automated Power Exchange as security for the purchase of power; the amount of the credit is \$585,000, (v) outstanding performance bonds of \$10,550 to secure performance under franchise agreements with governmental agencies, and (vi) an irrevocable letter of credit in the amount of \$3,600,000 pursuant to a settlement agreement with Southern California Edison Company ("Edison") to cover Registrant's commitment to pay the settlement amount. All of the letters of credit are issued pursuant to the syndicated revolving credit facility. The syndicated revolving credit facility contains restrictions on prepayments, disposition of property, mergers, liens and negative pledges, indebtedness and guaranty obligations, transactions with affiliates, minimum interest coverage requirements, a maximum debt to capitalization ratio, and a minimum debt rating. Pursuant to the Credit Agreement, AWR must maintain a minimum interest coverage ratio of 3.25 times interest expense, a maximum total funded debt ratio of 0.65 to 1.00 and a minimum debt rating of Baa1 or BBB+.

Under the terms of its power purchase contracts with Mirant Marketing and PWCC, SCW is required to post security, at the request of the seller, if SCW is in default under the terms of the contract and the future value of the contract is greater than the future value of contracts of a similar term on the date of default. SCW will be in default under the terms of these contracts if its debt is rated less than BBB- by S&P or Fitch, Inc. ("Fitch") or less than Baa3 by Moody's Investor Services, Inc ("Moody's"). SCW currently has a senior unsecured debt rating of A- with negative outlook by S & P and A2 with a recent upgrade from negative to "stable outlook" by Moody's. Fitch does not rate SCW.

S&P debt ratings range from AAA (highest rating possible) to D (obligation is in default). Moody's debt ratings range from Aaa (best quality) to C (lowest quality). Securities ratings are not recommendations to buy, sell or hold a security and are subject to change or withdrawal at any time by the rating agency.

Bear Valley Electric Service of SCW

As of March 31, 2005, SCW had accrued \$22.2 million in under-collected power costs, mostly incurred during the energy crisis in late 2000 and 2001 in connection with providing service to its Bear Valley Electric customers. SCW is authorized to include up to a weighted annual energy purchase cost of \$77 per MWh each year through August, 2011 in its electric supply cost balancing account. To the extent that actual weighted average annual costs 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, unless the CPUC approves the adjustments.

Power Supply Arrangements at SCW's Bear Valley Electric Service Area

Most of the electric energy sold by SCW to customers in its Bear Valley Electric customer service area is purchased from others. Beginning April 1, 2001, SCW entered into a five-year and nine-month, block forward purchase contract with Mirant Marketing for 15 MWs of electric energy at a price of \$95 per MWh through December 31, 2006.

On July 14, 2003, Mirant Marketing announced that, to facilitate its financial restructuring, it filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Registrant has not experienced any interruption in the delivery of electric energy under the Mirant Marketing contract. At this time, Registrant expects no interruption in the delivery of electric energy under the contract.

In June 2001, SCW executed an agreement with PWCC for an additional 8 MWs of electric energy to meet peak winter demands. The contract provided for pricing of \$75 per MWh from November 1, 2001 to March 31, 2002, \$48 per MWh from November 1, 2002 to March 31, 2003 and \$36 per MWh from November 1, 2003 to March 31, 2004.

In September 2002, SCW entered into a series of purchased power contracts with PWCC. Under the agreements, SCW will sell 15 MWs to PWCC of electric energy at a price of \$95 per MWh beginning November 1, 2002 through December 31, 2006, and the 8 MWs of electric energy covered under the energy purchase agreement with PWCC discussed previously. In return, PWCC agreed to supply SCW with 15 MWs of electric energy at a price of \$74.65 per MWh beginning November 1, 2002 through December 31, 2008, and an additional 8 MWs at \$74.65 per MWh beginning on November 1, 2002 through March 31, 2003 and each succeeding November 1 through March 31 period through March 31, 2008, and for the period November 1, 2008 through December 31, 2008. Settlement of these contracts occurs on a net or cash basis through 2006 and by physical delivery through 2008.

The average minimum monthly load at SCW's Bear Valley Electric customer service area has been approximately 12 MWs. The average winter load has been 18 MWs with a winter peak of 39 MWs when the snowmaking machines at the ski resorts are operating. In addition to the power purchase contracts, SCW buys additional energy from the spot market to meet peak demand and sells surplus power to the spot market as well. The average cost of power purchased, including the transactions in the spot market, was approximately \$79.13 per MWh for the three months ended March 31, 2005 as compared to \$81.30 per MWh for the same period of 2004. SCW's average energy costs are impacted by pricing fluctuations on the spot market.

Transmission Constraints

Demand for energy in SCW's Bear Valley Electric customer service area generally has been increasing. However, the ability of SCW to deliver purchased power to these customers is limited by the ability of the transmission facilities owned by Edison to transmit this power. On December 27, 2000, SCW filed a lawsuit against Edison for breach of contract as a result of delays in upgrading these transmission facilities as well as for violations of good faith and fair dealing, negligent misrepresentation, intentional misrepresentation and unjust enrichment.

In March 2004, SCW and Edison agreed to settle this suit. Under the terms of the settlement, SCW agreed to pay a \$5 million project abandonment fee to Edison. Edison filed an application to the FERC for approval to treat the entire \$5 million settlement payment as abandoned project cost to be included in Edison's wholesale rate charged to SCW. In addition, Edison sold the Goldhill substation and associated transmission line to SCW at its book value. SCW made an initial lump sum payment of \$1.4 million to Edison during the first quarter of 2004 and agreed to pay Edison the remaining \$3.6 million over a 15 year term through 180 equal monthly payments of \$38,137. In August 2004, the FERC approved Edison's application and SCW recorded the \$1.4 million payment in the supply cost balancing account. This amount was previously recorded as a regulatory asset pending FERC approval of Edison's application. In addition, monthly payments totaling \$114,411 made to Edison during the three months ended March 31, 2005 have also been included in the electric supply cost balancing account.

New Generation Facility

As a means of meeting the increasing demands for energy and limiting SCW's exposure to changes in spot market prices, SCW has constructed a natural gas-fueled 8.4 MW generation facility. The generator went on line during the third quarter of 2004. SCW filed for recovery of these costs in rates in the third quarter of 2004, using a special filing called a "Major Additions Adjustment Clause" or "MAAC". The rate increase requested by SCW was approved by the CPUC and was made effective on April 15, 2005, which is expected to result in an annual rate increase of approximately \$2.7 million. See the section entitled "Regulatory Matters" included in Part I, Item 2 in *Management's Discussion and Analysis of Financial Condition and Results of Operations* for more details.

Construction Program

SCW maintains an ongoing water distribution main replacement program throughout its customer service areas based on the priority of leaks detected, fire protection enhancement and an underlying replacement schedule. In addition, SCW upgrades its electric and water supply facilities in accordance with industry standards, local requirements and CPUC requirements. As of March 31, 2005, SCW has unconditional purchase obligations for capital projects of approximately \$26.8 million. In addition, SCW's Board of Directors also approved the 2005 net capital budget of approximately \$57.8 million primarily for upgrades to its water supply and distribution facilities. During the three months ended March 31, 2005 and 2004, Registrant spent \$18,127,000 and \$12,848,000, respectively, for these purposes.

CCWC's Board of Directors also approved the 2005 net capital budget of approximately \$1.4 million.

AWR and ASUS have no material capital commitments. However, ASUS actively seeks opportunities to own, lease or operate water and wastewater systems for governmental entities, which may involve significant capital commitments. FBWS has capital commitments that are expected to be paid from payments made by the U.S. Government under the terms of the 50-year contract for Fort Bliss.

Regulatory Matters

Rate Regulation

SCW is subject to regulation by the CPUC, which has broad powers with respect to service and facilities, rates, classifications of accounts, valuation of properties, the purchase, disposition and mortgaging of properties necessary or useful in rendering public utility service, the issuance of securities, the granting of certificates of public convenience and necessity as to the extension of services and facilities and various other matters. CCWC is subject to regulation by the ACC.

Rates that SCW and CCWC are authorized to charge are determined by the CPUC and the ACC, respectively, in general rate cases and are derived using rate base, cost of service and cost of capital, as projected for a future test year in California and using an historical test year, as adjusted in Arizona. Rates charged to customers vary according to customer class and rate jurisdiction and are generally set at levels allowing for recovery of prudently incurred costs, including a return on rate base. Rate base generally consists of the original cost of utility plant in service, construction work-in-progress, plus certain other assets, such as working capital and inventory, less accumulated depreciation on utility plant in service, deferred income tax liabilities and certain other deductions such as advances and contributions in aid of construction.

Neither AWR nor ASUS are directly regulated by the CPUC. The CPUC does, however, regulate certain transactions between SCW and its affiliates. The ACC also regulates certain transactions between CCWC and its affiliates.

For rate-making purposes, the 22 customer service areas of SCW are grouped into 9 water districts and 1 electric district. Water rates vary among the 9 water ratemaking districts due to differences in operating conditions and costs. SCW monitors operations on a regional basis in each of these districts so that applications for rate changes may be filed, when warranted. Under the CPUC's practices, rates may be increased by three methods: (i) general rate case increases (GRC's), (ii) offsets for certain expense increases including but not limited to supply cost offset and balancing account amortization, and (iii) advice letter filings related to certain plant additions and other operating cost increases. Under new procedures adopted by the CPUC in 2004, all class A water utilities, including SCWC, must file for a general rate case proceeding every once every three years. SCW's 9 ratemaking districts are organized into three regions, and each region is on its own three-year rate case cycle. GRC's establish rates for a three year period, which include step increases for the second and third year. Rates are based on a forecast of expenses and capital costs. GRC's have a typical regulatory lag of one year. Offset rate increases and advice letter filings typically have a two to four month regulatory lag.

Changes in Rates

On November 2, 2004, SCW filed advice letters with the CPUC for step increases for Region II in an amount of approximately \$2.8 million and attrition increases of approximately \$2.4 million for Region III that were approved and became effective January 1, 2005.

On July 10, 2003, the CPUC approved the Certificate of Public Convenience and Necessity (CPCN) for construction of an 8.4 MW natural gas-fueled generation facility on a portion of its property in the City of Big Bear Lake. The capital cost of the generating facility was approximately \$13 million. SCW filed for increased rates in the third quarter of 2004, using a special filing called a "Major Additions Adjustment Clause" or "MAAC" filing. This request was approved by the CPUC and the new rates became effective on April 15, 2005, which should result in an estimated annual revenue increase of approximately \$2.7 million.

Pending Rate Changes

SCW and the Office of Ratepayers Advocates have mutually agreed to a rate adjustment plan for Region I for 2005 to 2007. A proposed decision issued by an Administrative Law Judge authorized rate increases of \$2.3 million in annual revenues for 2005 and \$1 million and \$1.2 million in 2006 and 2007, respectively. We expect the decision will be finalized in the second quarter of 2005.

In February 2005, SCW filed an application with the CPUC for rate increases in Region III and the general office. If approved as filed, rates are expected to increase by \$19 million, \$1.5 million and \$1.5 million in 2006, 2007 and 2008, respectively. A decision on this application is expected later in 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 March 31, 2005, approximately \$15.2 million in legal and consulting related costs, including the unamortized portion of the \$1.8 million, has been recorded as deferred charges and included in "Regulatory Assets" on the SCW balance sheets.

In a proceeding currently pending at the CPUC, SCW has requested a twenty-year amortization of the remaining balance of the costs recorded in the memorandum account, net of any reimbursement amounts received from defendants, insurers and others. Given the expected timing for the issuance of a final decision in this proceeding (third quarter 2005), SCW filed a motion seeking another interim amortization. In this motion, SCW proposed to amortize \$6 million of the \$15.2 million of the memorandum account balance over a 10 year period, and to increase rates accordingly, subject to refund. In January 2005, a joint ruling of the assigned Commissioner and Administrative Law Judge denied SCW's request for an interim amortization. The motion was denied primarily because the CPUC did not consider interim relief to be needed when the hearing on the merits was only weeks away (March 14-15, 2005) and an expected proposed decision, and CPUC action on it, would likely be issued as soon as the second or third quarter of 2005. Management remains of the opinion 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 accumulated in this memorandum account. Management will continue to monitor the rate making process for this matter and assess the probability of recovery of these costs on a quarterly basis. 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 Regulatory Matters

In a decision issued on June 19, 2003 on supply cost memorandum accounts, the CPUC concluded that (i) if a utility is within its rate case cycle and does not earn over its authorized rate of return, the utility is permitted to recover its costs in the memorandum supply cost account subject to reasonableness review by the CPUC; (ii) if a utility is either within or outside of its rate case cycle and earns over the authorized return, the utility's recovery of expenses from the memorandum supply cost account will be reduced by the amount exceeding the authorized rate of return; and (iii) a utility is required to seek review of under and over collections by filing an advice letter annually. As of March 31, 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. An additional \$223,000 of net over-collection related to the

Table of Contents

three months ended March 31, 2005 has also been recorded as a regulatory liability at March 31, 2005. Furthermore, 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. Region III had a cumulative under-collected balance of \$6.8 million and \$6.6 million at March 31, 2005 and December 31, 2004, respectively, which are subject to earnings tests. A regulatory asset with respect to this under-collection will not be recorded until receipt of a CPUC decision authorizing the recovery of the under-collection.

On September 2, 2004, the CPUC issued an order instituting rulemaking (OIR) on Gain on Sale. The stated intention of the OIR is to establish clear guidelines for the disposition of capital gains from the sale of utility property. The draft of the OIR indicates that the CPUC is considering a sharing formula, with shareholders receiving between 5 and 50 percent of the gain. There is no schedule for evidentiary hearings and/or workshops at this time. Management is unable to predict the outcome of this OIR.

CCWC filed its rate case with the ACC in August 2004. CCWC is expecting the new rates will be approved and effective in early 2006. The filed rate request, if approved by the ACC, would increase CCWC's revenue requirement by approximately 29%.

Environmental Matters

1996 Amendments to Federal Safe Drinking Water Act

The U.S. Environmental Protection Agency (EPA) may only regulate contaminants that may have adverse health effects, are known or likely to occur at levels of public health concern, and the regulation of which will provide a meaningful opportunity for health risk reduction. The EPA has published a list of contaminants for possible regulation and must update that list every five years. In addition, every five years, the EPA must select at least five contaminants on that list and determine whether to regulate them. The EPA has authority to bypass the selection process and adopt interim regulations for contaminants in order to address urgent health threats. The Department of Health Services ("DOHS"), acting on behalf of the EPA, administers the EPA's program in California. The Arizona Department of Environmental Quality (ADEQ) administers EPA's program in Arizona. The Texas Commission on Environmental Quality (TCEQ) administers the EPA's program in Texas.

The EPA may base primary drinking water regulations on risk assessment and cost/benefit considerations and on minimizing overall risk. The EPA must base regulations on best available, peer-reviewed science and data from best available methods. For proposed regulations that involve the setting of maximum contaminant levels (MCL's), the EPA must use, and seek public comment on, an analysis of quantifiable and non-quantifiable risk-reduction benefits and costs for each such MCL.

SCW, CCWC and FBWS currently test their wells and water systems according to requirements listed in the Safe Drinking Water Act ("SDWA"). Water from wells found to contain levels of contaminants above the established MCL's is treated to reduce contaminants to acceptable levels before it is delivered to customers. If treatment is not possible, the wells are shut down. Since the SDWA became effective, SCW and CCWC have experienced increased operating costs for testing to determine the levels, if any, of the constituents in their sources of supply and additional expense to treat contaminants in order to meet the MCL standards. Treatment costs may cause SCW and/or CCWC to experience additional capital costs as well as increased operating costs. The CPUC and ACC ratemaking processes provide SCW and CCWC with the opportunity to recover prudently incurred capital and operating costs in future filings associated with water quality. Management believes that such incurred and expected future costs should be authorized for recovery by the CPUC and ACC, as applicable. FBWS may recover additional capital costs associated with a change in law or changes in circumstances from the U. S. Government as an equitable adjustment to the fee for providing services on Fort Bliss.

Enhanced Surface Water Treatment Rules

The EPA has adopted the Enhanced Surface Water Treatment Rule (ESWTR), which requires increased surface-water treatment to decrease the risk of microbial contamination. These rules apply to each of SCW's five surface water treatment plants and CCWC's surface water treatment plant. Registrant anticipates that all plants will achieve compliance within the three-year to five-year time frames identified by EPA. Registrant is required to be in compliance by June 1, 2006. SCW has initiated phased construction of a new treatment plant in the Calipatria-Niland customer service area (see further discussion below under *Regulation of Disinfectant/Disinfection By-Products*) to bring that facility into compliance. Once this project is completed, all the surface water plants in SCW and CCWC will be in compliance with these rules.

Regulation of Disinfectant/Disinfection By-Products

SCW and CCWC are also subject to regulations concerning disinfectant/disinfection by-products (DBP's). Stage I of the regulations was effective in November 1998 with full compliance required for systems serving 10,000 or more persons by 2002 and for systems serving fewer than 10,000 persons by 2004. Stage I requires reduction of total trihalomethane contaminants from 100 micrograms per liter to 80 micrograms per liter on a system wide running annual average. Upgrades to the Calipatria and Nilan plants were completed by the third quarter of 2004. Further modifications to the Calipatria and Nilan plants are expected to be in place by the end of May 2005 to ensure continued compliance.

The Stage 2 Disinfectant/Disinfection By-Products Rule and the Long-Term 2 Enhanced Surface Water Treatment Rule

The Long-Term 2 Enhanced Surface Water Treatment Rule (LT2ESWTR) was published in the *Federal Register* on August 11, 2003, and the Stage 2 Disinfectant/Disinfection By-Products Rule (DBPR) was published shortly thereafter on August 18. These proposed Rules are very complex and EPA has asked for comments on hundreds of technical issues. The comment period expired in January 2004. Registrant is currently waiting for the EPA to finalize these proposed rules to determine the impact. It is currently estimated that these rules will be formally proposed by the EPA during the fall of 2005.

Ground Water Rule

On May 10, 2000, the EPA published the proposed Ground Water Rule (GWR), which establishes multiple barriers to protect against bacteria and viruses in drinking water systems that use ground water. The proposed rule applies to all U.S. public water systems that use ground water as a source. The proposed GWR includes system sanitary surveys conducted by the state to identify significant deficiencies; hydrogeologic sensitivity assessments for undisinfected systems; source water microbial monitoring by systems that do not disinfect and draw from hydrogeologically sensitive aquifers or have detected fecal indicators within a distribution system; corrective action; and compliance monitoring for systems which disinfect to ensure that they reliably achieve 4-log (99.99%) inactivation or removal of viruses. On March 29, 2005, EPA asked that the rule be temporarily withdrawn from review to allow the Agency time for further consideration of the rule. No estimate has been made when final regulations will be adopted. While no assurance can be given as to the nature and cost of any additional compliance measures, if any, SCW and CCWC do not believe that such regulations will impose significant compliance costs, since they already currently engage in disinfection of the majority of their groundwater systems.

Regulation of Radon and Arsenic

On October 31, 2001, EPA established an arsenic MCL at 10 parts per billion (ppb). Compliance with an MCL of 10 ppb will require implementation of wellhead treatment remedies for eight affected wells in SCW's system and two wells in CCWC's system. The effective date for utilities to comply with the standard is January 2006. Company wells used to supply SCW's and CCWC's systems are expected to be in compliance with this standard by the end of 2005 or will be removed from service until the standard is met.

The California DOHS Office of Environmental Health Hazard Assessment (OEHHA) published the final Public Health Goal (PHG) of 4.0 parts per trillion in April 2004. This is the first step for California to adopt its own MCL for arsenic. The DOHS MCL process is expected to take up to a year (even as an emergency regulation). If the DOHS establishes a limit that is more stringent than the limit established by the EPA, SCW will be required to comply with this more stringent requirement.

The EPA has proposed new radon regulations following a National Academy of Sciences risk assessment and study of risk-reduction benefits associated with various mitigation measures. The National Academy of Sciences study is in agreement with much of EPA's original findings but has slightly reduced the ingestion risk initially assumed by EPA. EPA established an MCL of 300 Pico Curies per liter based on the findings and has also established an alternative MCL of 4000 Pico Curies per liter, based upon potential mitigation measures for overall radon reduction. Registrant is currently waiting for the EPA to establish a MCL to determine the impact.

Voluntary Efforts to Provide Treated Surface Water below Minimum Surface Water Treatment Requirements

SCW is a voluntary member of the EPA's Partnership for Safe Water, a national program designed to further protect the public from diseases caused by cryptosporidium and other microscopic organisms. As a volunteer in the program, SCW commits to treat surface water to levels much lower than the minimum operating requirements governing surface water treatment, optimize surface water treatment plant operations and seeks to have its surface water treatment facilities perform as efficiently as possible.

Unregulated Contaminants Monitoring Rule

EPA has revised the Unregulated Contaminant Monitoring Rule (UCMR). The data generated by the UCMR will be used to evaluate and prioritize contaminants on the Drinking Water Contaminant Candidate List, a list of contaminants EPA is considering for possible new drinking water standards. This data will help to ensure that future decisions on drinking water standards are based on sound science.

A tiered approach will be utilized with the three monitoring lists to provide the maximum capability to monitor up to the statutory limit of no more than 30 contaminants in any 5-year monitoring cycle. Therefore, as List 3 contaminants are found to occur in public water systems, they may move up to List 2, and likewise, List 2 contaminants may move up to List 1, when the UCMR is revised again later this year. The law requires that EPA publish a new contaminant-monitoring list every 5 years. When the EPA adds contaminants to their list, they will also include a compliance date. Registrant will evaluate the impact and necessary actions as additions are made to the contaminant lists.

Perchlorate Notification Level Activities

In January 2002, DOHS reduced the Perchlorate notification level (formerly termed the action level) from 18 ppb to a level of 4 ppb, based upon new information from the EPA. A revised PHG of 6 ppb was adopted by OEHHA in the first quarter of 2004 after which DOHS revised the state notification level for perchlorate from 4 ppb to 6 ppb. This is the first step in the establishment of an MCL in California.

SCW has removed eight wells from service in its Rancho Cordova system and six additional wells in various other systems since they contained perchlorate in amounts in excess of the notification level of 6 ppb.

In January 2005, the National Academy of Sciences issued a report evaluating EPA's reference dose for health risk information. This report concluded that a higher reference was appropriate. It is not certain what effect, if any, this report will have on California's MCL. The California MCL for perchlorate is expected to be finalized in 2005. SCW is continuing to periodically monitor all of its water supplies to determine that levels of perchlorate are below the action level currently in effect.

Matters Relating to SCW's Arden-Cordova Water System

In SCW's Rancho Cordova system, four wells have been removed from service and destroyed due to contamination from perchlorate. The supply has been replaced for three of these wells. An additional three wells are currently out of service due to perchlorate levels above the EPA trigger level of 4 ppb as defined in the EPA's Administrative Orders, and two wells are out of service due to detectable levels of nitrosodimethylamine (NDMA) above the action level. SCW continues to monitor all of its active groundwater wells in the Rancho Cordova system for perchlorate and NDMA.

Aerojet has, in the past, used ammonium perchlorate in oxidizing rocket fuels. NDMA is an additional by-product from the production of rocket fuels and it is believed that contamination in SCW's Rancho Cordova service area is also related to the activities of Aerojet. In 2000, SCW filed suit against Aerojet for contamination of SCW's ground water supply in its Rancho Cordova system.

On October 12, 2004, Registrant reached a final settlement with Aerojet of litigation relating to this contamination. Under the terms of the settlement, Aerojet paid SCW \$8.7 million in the first quarter of 2004. Aerojet will pay an additional \$8 million, plus interest accruing beginning January 1, 2004, over a period of five years commencing in December 2009. These payments reduce SCW's costs of utility plant and purchased water by \$16 million and \$735,000, respectively. Aerojet had previously reimbursed SCW \$4.3 million in capital costs and \$171,000 for additional water supply. In addition, Aerojet has agreed to reimburse SCW \$17.5 million, plus interest accruing from January 1, 2004, for its past legal and expert costs. The source of these later reimbursements is solely from connection fees anticipated to be received by Aerojet in a new development area owned by Aerojet adjacent to the SCW's Rancho Cordova system.

Aerojet has transferred 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. This arrangement, together with other mitigation measures, should afford SCW a reliable and safe water supply for its Rancho Cordova customers. Registrant and Aerojet have also signed three separate agreements requiring Aerojet to pay for certain transmission pipelines and upgrades to the Coloma Treatment Plant as a contingency plan, should additional wells be impacted. The value of the three agreements approximates \$6.8 million in capital improvements and the projects are expected to be completed by the third quarter of 2005.

Matters Relating to SCW's Yorba Linda Water System

The compound MTBE has been detected in a well serving SCW's Yorba Linda water system. To date, the well has not shown MTBE above the DOHS secondary standard of 5.0 ppb. SCW has constructed an interconnection with the Metropolitan Water District of Southern California to provide the needed water supply for this system in the event the well experiences levels of detection in excess of the DOHS standard.

SCW met with the Regional Water Quality Control Board, the Orange County Water District (OCWD), the City of Anaheim, the DOHS and three potentially responsible parties (PRPs) to define the extent of the MTBE contamination plume and assess the contribution from the PRPs. The PRPs voluntarily initiated a work plan for regional investigation. While there have not been significant disruptions to the water supply in Yorba Linda to this point in time, no assurances can be given that MTBE contamination will not increase in the future. In December 2003, a settlement was reached between SCW and the PRPs. Under the settlement agreement, the PRPs paid SCW \$581,250 in January 2004 for reimbursement of costs related to the issue, and will pay up to \$260,000 per year for five years (through 2008) for incremental supply costs should the MTBE level in the well exceed the DOHS secondary standard.

Matters Relating to SCW's San Gabriel Water Systems

Perchlorate and/or Volatile Organic Compounds (VOC) have been detected in five wells servicing SCW's San Gabriel System. SCW filed suit, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority (WQA), in federal court 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 resulting in reimbursement to SCW of the \$1 million in capital cost of VOC treatment facilities and contribution of approximately \$380,000 towards future operating and maintenance costs of the facilities.

In response to the filing of the Federal lawsuit, the PRP defendants filed motions to dismiss the suit or strike certain portions of the suit. Following a hearing on these motions on March 31, 2003, 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. In this same suit, the PRPs have filed cross-complaints against the Registrant, the other two affected water purveyors, the WQA and 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 San Gabriel Valley Groundwater Basin for use by Registrant and the other two affected water providers and for other related claims. 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.

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, including those that previously settled with the Water Entities on VOC matters, 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 any of these settlement discussions.

Table of Contents

Three other wells serving customers in SCW's San Gabriel customer service area are also impacted by VOC contamination. A settlement with several PRPs together with federal funds administered by WQA resulted in reimbursement of 100% of the \$1.1 million in capital costs, \$205,000 of past operations and maintenance costs and 100% of future operations and maintenance costs for a period of up to 30 years for VOC treatment facilities at these wells.

Bark Beetle Infestation in SCW's Bear Valley Electric Service Area

In a Proclamation issued on March 7, 2003 former Governor Gray Davis declared a State of Emergency with respect to a severe fire risk caused by dead and dying trees plagued by drought and a major bark beetle infestation in the counties of Riverside, San Bernardino, and San Diego. On April 3, 2003, the CPUC issued an order requiring Edison, San Diego Gas & Electric Company and Bear Valley Electric to take all reasonable and necessary actions to mitigate the increased fire hazard by removing dead, dying or diseased trees from falling or contacting distribution and transmission lines within their rights of way and to ensure compliance with existing vegetation clearance statutes and regulations. The utilities, including Bear Valley Electric, are authorized to make annual advice letter filings requesting recovery of the costs of removal and mitigation. SCW expects that current and future costs incurred in remediation of bark beetle infestation will be recoverable in rates through the annual advice letter filings, as the April 2003 order issued by the CPUC contained cost recovery provisions. As of March 31, 2005, approximately \$326,000 has been incurred and is recorded as a regulatory asset on the balance sheets.

Security Issues

Since the tragic events of September 11, 2001, water utilities, including Registrant, have been advised to increase security at key facilities in order to avoid contamination of water supplies and other disruptions of service. In compliance with "*The Public Health Security and Bioterrorism Preparedness Act of 2002*" (HR 3448), Registrant has continued to implement measures to increase security, which includes a vulnerability assessment of its large systems. In addition to large system assessments, all systems operated by Registrant were assessed to identify potential areas requiring enhancements. These assessments resulted in a prioritized listing of recommended facility upgrades to enhance the safety of water system operations to be made over a period of six years. Costs associated with capital improvements of approximately \$15 million were identified as a result of the assessment process. SCW has begun to make these improvements. In March 2004, the CPUC approved security plan amounts 2003 and 2004 consistent with the six-year plan. The CPUC will evaluate the remaining costs in future general rate cases.

Water Supply

SCW's Water Supply

During the three months ended March 31, 2005, SCW supplied a total of 14,853,000 CCF of water, or approximately 123 million gallons per day on average. Of this amount, approximately 57.3% came from pumped sources and 42.1% was purchased from others, principally the Metropolitan Water District of Southern California ("MWD"). The remaining was surface water principally supplied by the Bureau of Reclamation (the "Bureau") under a no-cost contract and by the Sacramento Municipal Utility District ("SMUD"), the cost of which is reimbursed by Aerojet-General Corp. pursuant to the October 2004 settlement agreement. For more information, please see the section entitled "*Environmental Matters*" included in *Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation*. During the three months ended March 31, 2004, SCW supplied 16,863,000 CCF of water, 53.8% of which came from pumped sources, 45.0% was purchased principally from MWD, and the Bureau and SMUD supplied the remainder.

The MWD is a water district organized under the laws of the State of California for the purpose of delivering imported water to areas within its jurisdiction. Registrant has 58 connections to the water distribution facilities of MWD and other municipal water agencies. MWD imports water from two principal sources: the Colorado River and the State Water Project. Available water supplies from the Colorado River and the State Water Project have historically been sufficient to meet most of MWD's requirements.

On October 17, 2003 Federal government, State government, and four Southern California water agency officials, including the MWD, met to sign the Quantification Settlement Agreement (QSA) that allocates to each state a share of the Colorado River. Under the QSA, MWD will have access (as in the past) to Colorado River water and up to 1.6 million acre feet of additional water that the Imperial Irrigation District proposes to conserve and sell to the state. With the signing of this agreement California once again has access to excess Colorado River water for the next 13 years. MWD has also publicly stated that it is stepping up a number of efforts including desalination, conservation, recycling, transfer and storage, to increase water supplies.

SCW's water supply and revenues are significantly affected, both in the short-run and the long-run, by changes in meteorological conditions. The water supply outlook for California in 2005 is positive. Significant storms in late December 2004 and through March of 2005 resulted in well above average snow pack in California mountains. The National Weather Service's Climate Prediction Center is forecasting a warmer than normal spring, summer, and fall with normal levels of precipitation, which would result in a more than adequate water supply for 2005.

For the water-year from October 2004 to date, precipitation has been well above average. Based on information from the California Department of Water Resources, most of California has received between 110% and over 150% of average levels with some parts of Southern California receiving over 300%. Snow pack level in California is at 165% of average. Reservoir levels have likewise improved with increased precipitation. Statewide California reservoirs, while not near full levels, are generally at 100% of average for early in the year.

With the winter snow pack levels at or near records highs (147% of average in California and 152% of average in Arizona) spring runoff is expected to be more than adequate. In many areas flooding is a real possibility and concern. Again from Sacramento to the Colorado River desert the runoff outlook is for 110% to 180% of average and central Arizona runoff from 90% to 120% of average. Statewide California's reservoirs are at 105% of their historic average.

Table of Contents

Although overall groundwater conditions are presently at adequate levels, certain of SCW's groundwater supplies have been affected to varying degrees by various forms of contamination which, in some cases, has caused SCW to increase its reliance on purchased water in its supply mix. For further information, see *Part II, Item 1 in Legal Proceedings*.

To continue meeting its water supply needs, SCW has contracts with various governmental entities and other parties to purchase water or water rights for an aggregate amount of \$64.9 million. Included in this amount as of March 31, 2005 is \$57.7 million that remains outstanding under purchase agreements with governmental entities which expire on an agreement-by-agreement basis between 2008 and 2012. Each of these contracts contain minimum take or pay provisions with the terms and conditions for pricing under each contract varying. SCW plans to continue to purchase and use at least the minimum water requirement under the respective contracts in the future. The amount of the remaining obligations was estimated based on current rates per acre-foot. These rates may be changed annually. Also included in the \$64.9 million is a remaining commitment of \$3.0 million under an agreement with the City of Claremont to lease water rights that were ascribed to the City as part of the Six Basins adjudication. The initial term of the agreement expires in 2028. SCW has an option to renew this agreement for 10 more years.

CCWC's Water Supply

Similar to California, the water supply outlook for Arizona is optimistic. Most of Arizona has experienced precipitation levels over 150% of average. Phoenix from January to March of 2005 had 5.22" of rain which is 196% of average. The Colorado River desert has had 313% of average precipitation so far this water year. Precipitation has been over 300% of average in some parts of Northern Arizona. In Arizona, the snow pack level at the Salt River Basin is at 118% and the Verde River Basin at 165% of average.

Based on information from the Arizona Department of Water Resources, statewide Arizona reservoirs are at 84% of average for this time of the year. The Colorado River Basin lakes, such as Lake Powell, Mead, Mohave and Havasu, are at 25.8 million acre-feet or approximately 60% of average, as compared to 48% of average in the previous water year. The spring and summer runoff for the Salt River Basin and Verde River Basin in Arizona are expected to be over 160% of average. For this water year so far, 1.35 million acre-feet of water has flowed into Lake Powell which is 104% of average. The April-July inflow to Lake Powell is expected to be 9.0 million acre-feet or 115% of average. At the end of March 2005, the Verde and Salt system reservoirs in central Arizona were at 95% of capacity versus 48% last year. Large reservoirs such as Lake Powell will take several years to recover from the drought. Currently Lake Powell is at 42% of average with inflow this water year at 109% of average or 3.03 million AF.

CCWC has been given an M&I (Municipal and Industrial) designation for purposes of determining priority for allocations of water from the Central Arizona Project ("CAP"). The first curtailment of CAP deliveries in the event of shortage would occur to non-Indian agricultural users. Such users accounted for a third of CAP deliveries in 2004, creating a buffer for M&I users such as CCWC. Though it is difficult to predict drought conditions with certainty, the priority for users of CAP, such as CCWC, provides an improved outlook for CCWC supplies.

CCWC obtains its water supply from two operating wells and from Colorado River water delivered by the CAP. The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal operating condition.

CCWC has an Assured Water Supply designation, by decision and order of the Arizona Department of Water Resources (ADWR), providing in part that, subject to its requirements, CCWC has a

Table of Contents

sufficient supply of ground water and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years.

On April 7, 2004 ADWR issued a decision confirming that CCWC has demonstrated the physical, legal and continuous availability of CAP water and groundwater, in an aggregate volume of 9,828 acre-feet per year for a minimum of 100 years which is greater than CCWC's projected demand for the calendar year 2014 of approximately 8,000 acre-feet. The 9,828 acre-feet is comprised of our existing CAP allocation of 6,978 acre-feet per year, 350 acre-feet per year groundwater allowance, incidental recharge credits of 500 acre-feet per year, and our Central Arizona Groundwater Replenishment District (CAGR) contract of 2,000 acre-feet per year. Our existing groundwater account balance of 35,829 acre-feet provides approximately 350 acre-feet per year for a hundred years.

The Arizona Water Settlement Act was signed into law in December of 2004. This legislation provides for an additional CAP allocation to CCWC in the amount of 1,931 acre-feet per year. In order to receive this additional allocation, CCWC must enter into a revised contract with the Central Arizona Water Conservation District (the "District"). CCWC expects agreement to be reached on this revised contract during 2005. Once a revised contract with the District is executed, CCWC intends to apply to ADWR to modify and increase its Designation of Assured Supply from 9,828 acre-feet per year to 11,759 acre-feet per year. CCWC has entered into a commitment with the District to purchase the 1,931 acre feet of water per year of additional CAP water rights for an estimated amount of \$1.1 million as of March 31, 2005. The price will be subject to further adjustment and is expected to increase until final written agreement is executed.

In addition, CCWC has a long-term water supply contract with the District through September 2033, and is entitled to take 6,978 acre feet of water per year from CAP. The maintenance rate for such water delivered is set by the District and is subject to annual increases. The estimated remaining commitment under this contract is \$5.6 million as of March 31, 2005 with \$195,000 paid each year.

Notwithstanding an assured water supply designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can currently rely on its well water supplies for short-term periods. However, in any event, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs. CCWC also has the physical capability to deliver water far in excess of that which is currently accounted for in CCWC's assured water supply account.

Risk Factor Summary

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

Our liquidity and earnings could be adversely affected by changes in water supply costs

On November 29, 2001, the CPUC ordered us to suspend the use of the current water balancing account, and instead start a memorandum account for each offsettable expense of purchased water, purchased power and pump tax for our water service areas. Changes in water supply costs compared to the authorized amount, as well as any future authorized offset increases may directly affect our earnings.

In a decision issued on June 19, 2003 for memorandum supply accounts, the CPUC concluded that our recovery of deferred water supply costs for providing water service will be reduced if we are earning more than our authorized rate of return. Pursuant to this decision, we are required to file advice letters annually with respect to over- and under- collections in the memorandum supply accounts in each

Table of Contents

of our rate-making jurisdictions. We also record the amount of net over-collections in each region, but do not record under-collections that are uncertain for recovery, unless the CPUC approves recovery of these under-collections. Our recovery of deferred water supply costs for providing water service is reduced if we are earning more than our authorized rate of return in a rate-making jurisdiction or the CPUC determines that our water supply costs are not reasonable.

Our business entails a significant risk of litigation, brought on a variety of legal theories, alleging that we have caused personal injury and property damage as a result of the delivery of contaminated water

We were sued, along with others, in nineteen water quality related lawsuits in Los Angeles Superior Court alleging personal injury and property damage as a result of the delivery of water that was allegedly contaminated. Although the trial court dismissed these suits in August 2004, several plaintiffs filed an appeal on September 21, 2004. SCW is unable to predict the outcome of the appeal.

Persons that are potentially responsible for causing the contamination of groundwater supplies have also been increasingly asserting claims against water distributors on a variety of theories and have thus far successfully brought the water distributors (including us) within the class of potentially responsible parties in Federal court actions pending in Los Angeles county. This increases the costs of seeking recovery from the potentially responsible parties and the risks associated with seeking recovery of these costs. Management believes that rate recovery, proper insurance coverage and reserves are in place to appropriately manage against these types of claims. However, such claims, if ultimately resolved unfavorably to us, could, in the aggregate, have a material adverse effect on our results of operations and financial condition.

Our operating costs have increased and are expected to continue to increase as a result of groundwater contamination

Our operations have been impacted by groundwater contamination in certain of our service territories. We have taken a number of steps to address this contamination, including the removal of wells from service, decreasing the amount of groundwater pumped from wells in our service area in order to slow the movement of plumes of contaminated water, construction of water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination.

In some cases, potentially responsible parties have reimbursed us for our costs. In other cases, we have taken legal action against parties that we believe to be potentially responsible for the contamination. To date, the CPUC has also permitted SCW to establish memorandum accounts for recovery of these types of costs. However, we can give no assurance regarding the outcome of litigation arising out of this contamination or our ability to recover these costs in the future.

Environmental regulation has increased, and is expected to continue to increase our operating costs

Our regulated subsidiaries are subject to increasingly stringent environmental regulations that will result in increasing capital and operating costs. These regulations include:

- The 1996 amendments to the Safe Drinking Water Act that require increased testing, reporting and treatment of water to reduce specified contaminants to maximum contaminant levels
- Additional regulation of disinfectants/ disinfection by products
- Additional regulations requiring disinfection of certain groundwater systems
- Regulation of arsenic and radon

Table of Contents

- Changes in the notification level relating to, and the proposed adoption of maximum contamination levels for, perchlorate and other by products of the production of rocket fuel

SCW and CCWC may be able to recover costs incurred to comply with these regulations through the ratemaking process. We may also be able to recover certain of these costs under certain of our contractual arrangements. In certain circumstances, we may be able to recover costs from parties responsible or potentially responsible for contamination, either voluntarily or through specific court action. However, our ability to recover these types of costs depends upon a number of factors beyond our control, including approval of rate increases, and we can give no assurance regarding the adequacy of any such recovery.

The adequacy of our water supplies depends upon a variety of factors beyond our control

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

- Rainfall
- Availability of Colorado River water and imported water from northern California
- The amount of water stored in reservoirs and groundwater basins
- The amount of water used by our customers and others
- Water quality
- Legal limitations on use

Population growth and increases in the amount of water used have increased limitations on use to prevent over-drafting of groundwater basins. The importation of water from the Colorado River, one of SCW's important sources of supply, is expected to decrease in future years due to the requirements of the Central Arizona Project ("CAP") and other limitations on the amount of water that the Metropolitan Water District of Southern California is entitled to take from the Colorado River. MWD is expected to increase its efforts to secure additional supplies from conservation, desalination and water exchanges with the agricultural water users.

CCWC obtains its water supply from operating wells and from the Colorado River through the CAP. CCWC's water supply may be subject to interruption or reduction if there is an interruption or reduction in CAP water. In addition, CCWC's ability to provide water service to new real estate developments is dependent upon CCWC's ability to meet the requirements of the Arizona Department of Water Resources regarding its assured water supply account.

Water shortages may affect us in a variety of ways:

- They adversely affect supply mix by causing us to rely on more expensive purchased water.
- They adversely affect operating costs.
- They may result in an increase in capital expenditures for building pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers and reservoirs and other facilities to conserve or reclaim water.

We may be able to recover increased operating and construction costs for our regulated systems through the ratemaking process. We may also be able to recover certain of these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination. We may also be able to recover certain of these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination.

Our earnings are greatly affected by weather during different seasons

The demand for water and electricity varies by season. Therefore, the results of operations for one period may not indicate results to be expected in another period. For instance, most water consumption occurs during the third quarter of each year when weather tends to be hot and dry. The demand for electricity in our Bear Valley Electric service area is greatly affected by winter snows. An increase in winter snows reduces the use of snow making machines at ski resorts in the Big Bear area and, as a result reduces electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snowmaking conditions which also reduces electric revenues.

Variability of weather from normal temperatures or changes in snow or rainfall can materially impact results of operations. As a result, weather has been and will continue to be one of the dominant factors in our financial performance.

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

Our revenues depend substantially on the rates that we are permitted to charge our customers and our ability to recover our costs in these rates on a timely basis, including the ability to recover the costs of purchased water, groundwater assessments, electric power and natural gas costs, costs incurred in connection with increased environmental regulation, recovery of costs incurred in connection with pursuing parties responsible for contamination of our groundwater systems, requirements to increase security at our water facilities and requirements to mitigate fire hazard risks in our Bear Valley Electric service area arising out of the drought and a major bark beetle infestation in rates. We have filed for increased water rates to recover operating costs from customers in certain of our water regions. In addition, we have filed with the ACC for increased water rates in CCWC's customer service areas in Arizona. Any delays by either the CPUC or the ACC in granting rate relief to cover increased operating and capital costs may adversely affect our financial performance.

Regulatory decisions can also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses and may overturn past decisions.

Our liquidity, and in certain circumstances, earnings, could be adversely affected by increases in electricity and natural gas prices in California

Our liquidity, and in certain circumstances, earnings, could be adversely affected by increases in electricity and natural gas prices in California. Most of our electric energy sold to customers in our Bear Valley Electric customer service area is purchased from others under contracts that expire at the end of 2008 at an average price of \$74.65 per MWh. In addition to the power purchase contracts, we also buy additional energy from the spot market to meet peak demand and sell surplus power to the spot market. We also operate a natural gas-fueled 8.4 MW generator.

We are currently authorized by the CPUC to recover up to a weighted annual energy purchase of \$77 per MWh each year through August 2011 from ratepayers. SCW is required to write-off costs in excess of this cap. As a result, SCW is currently at risk for increases in spot market prices of electricity that it purchases and for decreases in spot market prices for electricity that it sells. In addition, SCW is permitted to collect an additional surcharge from its customers of 2.2¢ per kilowatt hour through August 2011 to recover the under-collection in the electric balancing account, with a current balance of \$22.2 million, incurred by SCW during the energy crisis in late 2000 through 2001. In 2011, amounts not recovered through this surcharge may be subject to regulatory risk.

Table of Contents

Unexpected outages at the generator that we operate, or a failure to perform by any of the counterparties to our electric and natural gas purchase contracts could further increase our exposure to fluctuating natural gas and electric prices.

Our business requires significant capital expenditures

The utility business is capital intensive. On an annual basis, we spend significant sums of money for additions to or replacement of property, plant and equipment. Registrant spent \$18.8 million for these purposes in the first quarter of 2005, out of a total of approximately \$59.8 million budgeted for 2005.

We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which must be repaid). We also periodically borrow money or issue equity for these purposes. In addition, we have a syndicated bank facility that we can use for these purposes. We cannot assure you that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return.

The expansion of our contract operations will expose us to different risks than those associated with our utility operations

We are incurring additional costs in connection with the expansion of our contract operations associated with the preparation of bids, the negotiation of the terms of new contracts and start-up activities associated with new contracts. Our ability to recover these costs and to earn a profit on our contract operations will depend upon the extent to which we are successful in obtaining new contracts and our ability to recover those costs and other costs from revenues from new contracts. Furthermore, under the new military contract, FBWS bears the risk of increases in operating costs above those authorized in the contract for operation of Fort Bliss, unless FBWS is entitled to an equitable adjustment for such matters as an increase in labor rates, changes in circumstances or differing site conditions from those anticipated at the time of execution of the contract.

In addition, we must maintain the proper management and find state-certified and qualified employees to support the operation of water and wastewater facilities. Failure to do so could put us at risk of, among other things, operations errors at these facilities and for improper billing and collection procedures as well as loss of contracts, assessment of penalties for operational failures and loss of revenues.

New Accounting Pronouncements

Registrant is subject to newly issued as well as changes in existing requirements issued by the Financial Accounting Standard Board. Differences in financial reporting between periods could occur unless and until the CPUC and the ACC approve such changes for conformity through regulatory proceedings. See *Note 8* of Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Registrant is exposed to certain market risks, including fluctuations in interest rates, and commodity price risk primarily relating to changes in the market price of electricity. Market risk is the potential loss arising from adverse changes in prevailing market rates and prices. There have been no material changes regarding Registrant's market risk position from the information provided in its Annual Report on Form 10-K for the year ended December 31, 2004. The quantitative and qualitative disclosures about market risk are discussed in *Item 7A-Quantitative and Qualitative Disclosures About Market Risk*, contained in Registrant's Annual Report on Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934 (the “Exchange Act”), we have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), of the effectiveness, as of the end of the fiscal quarter covered by this report, of the design and operation of our “disclosure controls and procedures” as defined in Rule 13a-15(e) and 15d-15(e) promulgated by the Securities and Exchange Commission (SEC) under the Exchange Act. Based upon that evaluation, the CEO and the CFO concluded that disclosure controls and procedures, as of the end of such fiscal quarter, were adequate and effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended March 31, 2005, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II**Item 1. Legal Proceedings**

Registrant is subject to ordinary routine litigation incidental to its business. Other than those disclosed in Registrant's Form 10-K for the year ended December 31, 2004, 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The shareholders of AWR have approved the material features of all equity compensation plans under which AWR directly issues equity securities. AWR did not directly issue any unregistered equity securities during the first quarter of 2005.

The following table provides information about repurchases of Common Shares by AWR during the first quarter of 2005:

Period	Total Number Shares of Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs
January 1 - 31, 2005	—	—	—	—
February 1 - 28, 2005	175 ⁽³⁾	\$ 26.07	—	NA ⁽²⁾
March 1 - 31, 2005	8,434 ⁽⁴⁾	\$ 25.10	—	NA ⁽²⁾
Total	8,609	\$ 25.12	—	NA ⁽²⁾

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

(2) None of these plans contain a maximum number of Common Shares that may be purchased in the open market under the plans.

(3) All of these Common Shares were acquired on the open market for employees pursuant to an employee benefit plan of the Company. All of the Common Shares needed to meet the requirements of this plan were purchased in the open market.

(4) Of this amount, 8,113 Common Shares were acquired on the open market for employees pursuant to the Company's 401(k) plan. All of the Common Shares needed to meet the requirements of this plan were purchased in the open market. The remainder of the Common Shares was acquired on the open market for new participants in the Company's Common Share Purchase and Dividend Reinvestment Plan.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

No items were submitted during the first quarter of the fiscal year covered by this report to a vote of security holders through the solicitation of proxies or otherwise. However, on or about April 12, 2005, common shareholders of AWR were mailed a Notice of Annual Meeting and a Proxy Statement. Shareholders were requested to vote their shares to: (1) elect three Class I directors to the Board of Directors to serve until their successors are elected and qualified; (2) approve amendments to the 2003 Non-Employee Directors Stock Plan; (3) approve an amendment to the 2000 Stock Incentive Plan; (4) ratify the appointment of PricewaterhouseCoopers, LLP as the independent auditors; and (5) transact any other business, which may properly come before the meeting or any adjournment thereof.

The Annual Meeting of Shareholders will be held on May 17, 2005.

Item 5. Other Information

(a) On April 28, 2005, the Board of Directors of Registrant declared a regular quarterly dividend of \$0.225 per common share. The dividend will be paid June 1, 2005 to shareholders of record as of the close of business on May 10, 2005.

(b) There have been no material changes during the first quarter of 2005 to the procedures by which shareholders may nominate persons to the Board of Directors of AWR.

Item 6. Exhibits

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

- 3.1 Amended By-Laws of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated April 3, 2005 (1)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR (1)
- 31.1.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for SCW (1)
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR (1)
- 31.2.1 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for SCW (1)
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2)
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2)

(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: May 10, 2005

BYLAWS
for the regulation, except
as otherwise provided by statute or
its Articles of Incorporation,
of
AMERICAN STATES WATER COMPANY
(a California corporation)

ARTICLE I. Offices.

Section 1. PRINCIPAL EXECUTIVE OFFICE. The corporation's principal executive office shall be fixed and located at such place as the Board of Directors (herein called the "Board") shall determine. The Board is granted full power and authority to change said principal executive office from one location to another.

Section 2. OTHER OFFICES. Branch or subordinate offices may be established at any time by the Board at any place or places.

ARTICLE II. Shareholders.

Section 1. PLACE OF MEETINGS. Meetings of shareholders shall be held either at the principal executive office of the corporation or at any other place within or without the State of California which may be designated either by the Board or by the written consent of all persons entitled to vote thereat given either before or after the meeting and filed with the Secretary.

Section 2. SPECIAL MEETINGS. Special meetings of the shareholders may be called at any time by the Board, the Chairman of the Board, the President or by the holders of shares entitled to cast not less than ten percent of the votes at such meeting. Upon request in writing to the Chairman of the Board, the President, any Vice President or the Secretary by any person (other than the Board) entitled to call a special meeting of shareholders, the officer forthwith shall cause notice to be given to the shareholders entitled to vote that a meeting will be held at a time requested by the person or persons calling the meeting, not less than thirty-five nor more than sixty days after the receipt of the request. Such request shall be made in accordance with applicable law and these Bylaws. If the notice is not given within twenty days after receipt of the request, the persons entitled to call the meeting may give the notice.

Section 3. ANNUAL MEETINGS. The annual meetings of shareholders shall be held on such date and at such time as may be fixed by the Board. At such meetings, directors shall be elected and any other proper business may be transacted in accordance with applicable law and these Bylaws.

Section 4. NOTICE OF ANNUAL OR SPECIAL MEETINGS. Written notice of each annual or special meeting of shareholders shall be given not less than ten nor more than sixty days before the date of the meeting to each shareholder entitled to vote thereat. Such notice

shall state the place, date and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, and no other business may be transacted, or (ii) in the case of the annual meeting, those matters which the Board, at the time of the mailing of the notice, intends to present for action by the shareholders, but, subject to the provisions of applicable law and these Bylaws, any proper matter may be presented at the meeting for such action. The notice of any meeting at which directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by management for election.

Notice of a shareholders' meeting shall be given either personally or by mail or by other means of written communication, addressed to the shareholder at the address of such shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice, or, if no such address appears or is given, at the place where the principal executive office of the corporation is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located. Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mails, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient.

Section 5. QUORUM. A majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of shareholders. If a quorum is present, the affirmative vote of a majority of the shares represented and voting at the meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by law or by the Articles, except as provided in the following sentence. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 6. ADJOURNED MEETINGS AND NOTICE THEREOF. Any shareholders' meeting, whether or not a quorum is present, may be adjourned from time to time by the vote of shareholders entitled to exercise a majority of the voting power represented either in person or by proxy, but in the absence of a quorum (except as provided in Section 5 of this Article) no other business may be transacted at such meeting.

It shall not be necessary to give any notice of the time and place of the adjourned meeting or of the business to be transacted thereat, other than by announcement at the meeting at which such adjournment is taken; provided, however, when any shareholders' meeting is adjourned for more than forty-five days or, if after adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given as in the case of an original meeting.

Section 7. VOTING. The shareholders entitled to notice of any meeting or to vote at such meeting shall be only persons in whose name shares stand on the stock records of the corporation on the record date determined in accordance with Section 8 of this Article.

Subject to the following sentence and to the provisions of Section 708 of the California General Corporation Law, every shareholder entitled to vote at any election of directors may cumulate such shareholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the shareholder's shares are entitled, or distribute the shareholder's votes on the same principle

among as many candidates as the shareholder thinks fit. No shareholder shall be entitled to cumulate votes for any candidate or candidates pursuant to the preceding sentence unless such candidate or candidates' names have been placed in nomination prior to the voting and the shareholder has given notice at the meeting prior to the voting of the shareholder's intention to cumulate the shareholder's votes. If any one shareholder has given such notice, all shareholders may cumulate their votes for candidates in nomination.

Elections need not be by ballot; provided, however, that all elections for directors must be by ballot upon demand made by a shareholder at the meeting and before the voting begins.

In any election of directors, the candidates receiving the highest number of votes of the shares entitled to be voted for them up to the number of directors to be elected by such shares are elected.

Voting shall in all cases be subject to the provisions of Chapter 7 of the California General Corporation Law, and to the following provisions:

(a) Subject to clause (g), shares held by an administrator, executor, guardian, conservator or custodian may be voted by such holder either in person or by proxy, without a transfer of such shares into the holder's name; and shares standing in the name of a trustee may be voted by the trustee, either in person or by proxy, but no trustee shall be entitled to vote shares held by such trustee without a transfer of such shares into the trustee's name.

(b) Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into the receiver's name if authority to do so is contained in the order of the court by which such receiver was appointed.

(c) Subject to the provisions of Section 705 of the California General Corporation Law and except where otherwise agreed in writing between the parties, a shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

(d) Shares standing in the name of a minor may be voted and the corporation may treat all rights incident thereto as exercisable by the minor, in person or by proxy, whether or not the corporation has notice, actual or constructive, of the nonage, unless a guardian of the minor's property has been appointed and written notice of such appointment given to the corporation.

(e) Shares outstanding in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxyholder as the bylaws of such other corporation may prescribe or, in the absence of such provision, as the board of directors of such other corporation may determine or, in the absence of such determination, by the chairman of the board, president or any vice president of such other corporation, or by any other person authorized to do so by the chairman of the board, president or any vice president of such other corporation. Shares which are purported to be voted or any proxy purported to be executed in the name of a corporation (whether or not any title of the person signing is indicated) shall be presumed to be voted or the proxy executed in accordance with the provisions of this clause, unless the contrary is shown.

(f) Shares of the corporation owned by any subsidiary shall not be entitled to vote on any matter.

(g) Shares held by the corporation in a fiduciary capacity, and shares of the issuing corporation held in a fiduciary capacity by any subsidiary, shall not be entitled to vote on any matter, except to the extent that the settlor or beneficial owner possesses and exercises a right to vote or to give the corporation binding instructions as to how to vote such shares.

(h) If shares stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, husband and wife as community property, tenants by the entirety, voting trustees, persons entitled to vote under a shareholder voting agreement or otherwise, or if two or more persons (including proxyholders) have the same fiduciary relationship respecting the same shares, unless the Secretary of the corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

(i) If only one votes, such act binds all;

(ii) If more than one vote, the act of the majority so voting binds all;

(iii) If more than one vote, but the vote is evenly split on any particular matter each faction may vote the securities in question proportionately.

If the instrument is so filed or the registration of the shares shows that any such tenancy is held in unequal interests, a majority or even split for the purpose of this Section shall be a majority or even split in interest.

Section 8. RECORD DATE. The Board may fix, in advance, a record date for the determination of the shareholders entitled to notice of any meeting or to vote or entitled to receive payment of any dividend or other distribution, or any allotment of rights, or to exercise rights in respect of any other lawful action. The record date so fixed shall be not more than sixty days nor less than ten days prior to the date of the meeting nor more than sixty days prior to any other action. When a record date is so fixed, only shareholders of record on that date are entitled to notice of and to vote at the meeting or to receive the dividend, distribution, or allotment of rights, or to exercise of the rights, as the case may be, notwithstanding any transfer of shares on the books of the corporation after the record date. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting. The Board shall fix a new record date if the meeting is adjourned for more than forty-five days.

If no record date is fixed by the Board, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held. The record date for determining shareholders for any purpose other than set forth in this Section 8 or Section 10 of this Article shall be at the close of business on the day on which the Board adopts the resolution relating thereto, or the sixtieth day prior to the date of such other action, whichever is later.

Section 9. CONSENT OF ABSENTEES. The transactions of any meeting of shareholders, however called and noticed, and wherever held, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Attendance of a person at a meeting shall constitute a waiver of notice of and presence at such meeting, except when the person objects, at the beginning of the meeting, to the transactions of any business because the meeting is not lawfully called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by the California General Corporation Law to be included in the notice but not so included, if such objection is expressly made at the meeting. Neither the business to be transacted at nor the purpose of any regular or special meeting of shareholders need to be specified in any written waiver of notice, consent to the holding of the meeting or approval of the minutes thereof, except as provided in Section 601(f) of the California General Corporation Law.

Section 10. ACTION WITHOUT MEETING. Subject to Section 603 of the California General Corporation Law, any action which, under any provision of the California General Corporation Law, may be taken at any annual or special meeting of shareholders, may be taken without a meeting and without prior notice if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Unless a record date for voting purposes be fixed as provided in Section 8 of this Article, the record date for determining shareholders entitled to give consent pursuant to this Section 10, when no prior action by the Board has been taken, shall be the day on which the first written consent is given.

Section 11. PROXIES. Every person entitled to vote shares has the right to do so either in person or by one or more persons authorized by a written proxy executed by such shareholder and filed with the Secretary. Any proxy duly executed is not revoked and continues in full force and effect until revoked by the person executing it prior to the vote pursuant thereto by a writing delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by the person executing the prior proxy and presented to the meeting, or by attendance at the meeting and voting in person by the person executing the proxy; provided, however, that no proxy shall be valid after the expiration of eleven months from the date of its execution unless otherwise provided in the proxy.

Section 12. INSPECTORS OF ELECTION. In advance of any meeting of shareholders, the Board may appoint inspectors of election to act at such meeting and any adjournment thereof. If inspectors of election be not so appointed, or if any persons so appointed fail to appear or refuse to act, the chairman of any such meeting may, and on the request of any shareholder or shareholder's proxy shall, make such appointment at the meeting. The number of inspectors shall be either one or three. If appointed at a meeting on the request of one or more shareholders or proxies, the majority of shares present shall determine whether one or three inspectors are to be appointed.

The duties of such inspectors shall be as prescribed by Section 707(b) of the California General Corporation Law and shall include: determining the number of shares outstanding and the voting power of each; determining the shares represented at the meeting; determining the existence of a quorum; determining the authenticity, validity and effect of proxies; receiving votes, ballots or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or consents; determining when the polls shall close; determining the result; and doing such

acts as may be proper to conduct the election or vote with fairness to all shareholders. If there are three inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all.

Section 13. CONDUCT OF MEETING. The Chairman of the Board shall preside as chairman at all meetings of the shareholders. The chairman shall conduct each such meeting in a businesslike and fair manner, but shall not be obligated to follow any technical, formal or parliamentary rules or principles of procedure. The chairman's rulings on procedural matters shall be conclusive and binding on all shareholders, unless at the time of a ruling a request for a vote is made to the shareholders holding shares entitled to vote and which are represented in person or by proxy at the meeting, in which case the decision of a majority of such shares shall be conclusive and binding on all shareholders. Without limiting the generality of the foregoing, the chairman shall have all of the powers usually vested in the chairman of a meeting of shareholders.

Section 14. QUALIFICATIONS OF DIRECTORS. Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be qualified to serve as directors. Nominations of persons for election to the Board may be made at a meeting of shareholders (a) by or at the direction of the Board or (b) by any shareholder of the corporation who is a shareholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Bylaw.

Nominations by shareholders shall be made pursuant to timely notice in writing to the Secretary. To be timely as to an annual meeting, a shareholder's notice must be received at the principal executive officers of the corporation not less than 75 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is changed by more than 30 days from such anniversary date, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. To be timely as to a special meeting at which directors are to be elected, a shareholder's notice must be received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to the shareholder giving the notice (i) the name and address, as they appear on the corporation's books, of such shareholder and (ii) the class and number of shares of the corporation which are beneficially owned by such shareholder and also which are owned of record by such shareholder; and (c) as to the beneficial owner, if any, on whose behalf the nomination is made, (i) the name and address of such person and (ii) the class and number of shares of the corporation which are beneficially owned by such person. At the request of the Board, any person nominated by the Board for election as a director shall furnish to the Secretary that information required to be set forth in the shareholder's notice of nomination which pertains to the nominee.

No person shall be qualified to serve as a director of the corporation unless nominated in accordance with the procedures set forth in this Bylaw. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if the Chairman

should so determine, that the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Bylaw, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Bylaw.

Section 15. PROPER BUSINESS FOR SHAREHOLDER MEETINGS. At a meeting of the shareholders, only such business shall be proper as shall be brought before the meeting (a) pursuant to the corporation's notice of meeting, (b) by or at the direction of the Board or (c) by any shareholder of the corporation who is a shareholder of record at the time of giving of the notice provided for in this Bylaw, who shall be entitled to vote at such meeting and who complies with the notice procedures set forth in this Bylaw.

For business to be properly brought before a meeting by a shareholder pursuant to clause (c) of the first paragraph of this Bylaw, the shareholder must have given timely notice thereof in writing to the Secretary. To be timely as to an annual meeting of shareholders, a shareholder's notice must be received at the principal executive offices of the corporation not less than 75 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the meeting is changed by more than 30 days from such anniversary date, notice by the shareholder to be timely must be received no later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. To be timely as to a special meeting of shareholders, a shareholder's notice must be received not later than the call of the meeting by the Board, the Chairman of the Board or the President, or the date of receipt of a valid request by a person (other than the Board) that the special meeting be called. Such shareholder's notice shall set forth as to each matter the shareholder proposes to bring before the meeting (a) a brief description of such matter and the reasons for proposing such matters(s) at the meeting, (b) the name and address, as they appear on the corporation's books, of the shareholder proposing such business, and the name and address of the beneficial owner, if any, on whose behalf the proposal is made, (c) the class and number of shares of the corporation which are owned beneficially and of record by such shareholder of record and by the beneficial owner, if any, on whose behalf the proposal is made and (d) any material interest of such shareholder of record and the beneficial owner, if any, on whose behalf the proposal is made in such proposal.

Notwithstanding anything in these Bylaws to the contrary, no business shall be proper at a meeting unless brought before it in accordance with the procedures set forth in this Bylaw. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the procedures prescribed by these Bylaws, and if the Chairman should so determine, that any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Bylaw, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Bylaw.

ARTICLE III. Directors.

Section 1. POWERS. Subject to limitations of the Articles, of these Bylaws and of the California General Corporation Law relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the Board shall have the following powers in addition to the other powers enumerated in these Bylaws:

(a) To select and remove all the other officers, agents and employees of the corporation, prescribe the powers and duties for them as may not be inconsistent with law, the Articles or these Bylaws, fix their compensation and require from them security for faithful service.

(b) To conduct, manage and control the affairs and business of the corporation and to make such rules and regulations therefor not inconsistent with law, the Articles or these Bylaws, as they may deem best.

(c) To adopt, make and use a corporate seal, and to prescribe the forms of certificates of stock, and to alter the form of such seal and of such certificates from time to time, as they may deem best.

(d) To authorize the issuance of shares of stock of the corporation from time to time, upon such terms and for such consideration as may be lawful.

(e) To borrow money and incur indebtedness for the purposes of the corporation, and to cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

Section 2. NUMBER OF DIRECTORS. The authorized number of directors shall be not less than five nor more than nine until changed by amendment of the Articles or by a Bylaw duly adopted by the shareholders amending this Section 2. The exact number of directors shall be fixed, within the limits specified, by the Board from time to time in a resolution adopted by a majority of the directors. The exact number of directors shall be six until changed as provided in this Section 2.

Section 3. ELECTION AND TERM OF OFFICE. Except as otherwise provided in the Articles, the directors shall be elected at each annual meeting of the shareholders, but if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. Each director shall hold office until the next annual meeting and until a successor has been elected and qualified.

Section 4. VACANCIES. Any director may resign effective upon giving written notice to the Chairman of the Board, the President, the Secretary or the Board, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Vacancies in the Board, except those existing as a result of a removal of a director, may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until the next annual meeting and until such director's successor has been elected and qualified.

A vacancy or vacancies in the Board shall be deemed to exist in case of the death, resignation or removal of any director, or if the authorized number of directors be increased, or if the shareholders fail, at any annual or special meeting of shareholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

The Board may declare vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony.

The shareholders, subject to applicable law and these Bylaws, may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. Any such election by written consent, other than to fill a vacancy created by removal, requires the consent of a majority of the outstanding shares entitled to vote. Any such election by written consent to fill a vacancy created by removal requires unanimous consent.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of the director's term of office.

Section 5. PLACE OF MEETING. Regular or special meetings of the Board shall be held at any place within or without the State of California which has been designated from time to time by the Board. In the absence of such designation, regular meetings shall be held at the principal executive office of the corporation.

Section 6. REGULAR MEETINGS. Immediately following each annual meeting of shareholders, the Board shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business.

Other regular meetings of the Board shall be held without call on such dates and at such times as may be fixed by the Board. Call and notice of all regular meetings of the Board are hereby dispensed with.

Section 7. SPECIAL MEETINGS. Special meetings of the Board for any purpose or purposes may be called at any time by the Chairman of the Board, the President, any Vice President, the Secretary or by any two directors.

Special meetings of the Board shall be held upon four days' written notice or forty-eight hours' notice given personally or by telephone, telegraph, telex, or other similar means of communication. Any such notice shall be addressed or delivered to each director at such director's address as it is shown upon the records of the corporation or as may have been given to the corporation by the director for purposes of notice or, if such address is not shown on such records or is not readily ascertainable, at the place in which the meetings of the directors are regularly held.

Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mails, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient. Oral notice shall be deemed to have been given at the time it is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

Section 8. QUORUM. A majority of the authorized number of directors constitutes a quorum of the Board for the transaction of business, except to adjourn as provided in Section 11 of this Article. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board, unless a greater number be required by law or by the Articles. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 9. PARTICIPATION IN MEETINGS BY CONFERENCE TELEPHONE. Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another.

Section 10. WAIVER OF NOTICE. Notice of a meeting need not be given to any director who signs a waiver of notice or consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meetings.

Section 11. ADJOURNMENT. A majority of the directors present, whether or not a quorum is present, may adjourn any directors' meeting to another time and place. Notice of the time and place of holding an adjourned meeting need not be given to absent directors if the time and place be fixed at the meeting adjourned, except as provided in the next sentence. If the meeting is adjourned for more than twenty-four hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

Section 12. FEES AND COMPENSATION. Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement for expenses, as may be fixed or determined by the Board.

Section 13. ACTION WITHOUT MEETING. Any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such consent or consents shall have the same effect as a unanimous vote of the Board and shall be filed with the minutes of the proceedings of the Board.

Section 14. RIGHTS OF INSPECTION. Every director shall have the absolute right at any reasonable time to inspect and copy all books, records and documents of every kind and to inspect the physical properties of the corporation and also of its subsidiary corporations, domestic or foreign. Such inspection by a director may be made in person or by agent or attorney and includes the right to copy and obtain extracts.

Section 15. COMMITTEES. The Board may appoint one or more committees, each consisting of two or more directors, and delegate to such committees any of the authority of the Board except with respect to:

- (a) The approval of any action for which the California General Corporation Law also requires shareholders' approval or approval of the outstanding shares;
- (b) The filling of vacancies on the Board or on any committee;
- (c) The fixing of compensation of the directors for service on the Board or on any committee;
- (d) The amendment or repeal of bylaws or the adoption of new bylaws;
- (e) The amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable;

- (f) A distribution to the shareholders of the corporation except at a rate or in a periodic amount or within a price range determined by the Board; or
- (g) The appointment of other committees of the Board or the members thereof.

Any such committee must be designated, and the members or alternate members thereof appointed, by resolution adopted by a majority of the authorized number of directors and any such committee may be designated an Executive Committee or by such other name as the Board shall specify. Alternative members of a committee may replace any absent member at any meeting of the committee. The Board shall have the power to prescribe the manner in which proceedings of any such committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any such committee shall be governed by the provisions of this Article applicable to meetings and actions of the Board. Minutes shall be kept of each meeting of each committee.

ARTICLE IV. Officers.

Section 1. OFFICERS. The officers of the corporation shall be a President, a Secretary and a Chief Financial Officer. The corporation may also have, at the discretion of the Board, a Chairman of the Board, an Executive Vice President, a Senior Vice President, one or more Vice Presidents, a Treasurer, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as may be elected or appointed in accordance with the provisions of Section 3 of this Article.

Section 2. ELECTION. The officers of the corporation, except such officers as may be elected or appointed in accordance with the provisions of Section 3 or Section 5 of this Article, shall be chosen annually by, and shall serve at the pleasure of, the Board, and shall hold their respective offices until their resignation, removal, or other disqualification from service, or until their respective successors shall be elected.

Section 3. SUBORDINATE OFFICERS. The Board may elect, and may empower the Chairman of the Board, if there be such an officer, or the President, to appoint such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board may from time to time determine.

Section 4. REMOVAL AND RESIGNATION. Any officer may be removed, either with or without cause, by the Board at any time or, except in the case of an officer chosen by the Board, by an officer upon whom such power of removal may be conferred by the Board. Any such removal shall be without prejudice to the rights, if any, of the officer under any contract of employment of the officer.

Any officer may resign at any time by giving written notice to the corporation, but without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular election or appointment to such office.

Section 6. CHAIRMAN OF THE BOARD. The Chairman of the Board, if there shall be such an officer, shall be the Chief Executive Officer of the corporation unless, in its sole discretion, the Board should elect the President to be such. The Chief Executive Officer is the general manager and chief executive officer of the corporation and has, subject to the control of the Board, general supervision, direction and control of the business and officers of the corporation. The Chairman of the Board, if there shall be such an officer, shall, if present, preside at all meetings of the shareholders and the Board and exercise and perform such other powers and duties as may be from time to time assigned by the Board.

Section 7. PRESIDENT. Subject to such powers, if any, as may be given to the Chairman of the Board, if there be such an officer, the President shall have the general powers and duties of management usually vested in the office of the president of a corporation and such other powers and duties as may be prescribed by the Board or the Chief Executive Officer, if other than the President. In the absence of the Chairman of the Board, or if there be none, the President shall preside at all meetings of the shareholders and the Board. In the absence or disability of the Chief Executive Officer, if other than the President, the President shall perform all the duties of the Chief Executive Officer and, when so acting, shall have all of the powers of, and be subject to all the restrictions upon, the Chief Executive Officer.

Section 8. VICE PRESIDENTS. The Executive Vice President and Senior Vice President, if any, and other Vice Presidents shall have (subject to the authority of the Board) such powers and perform such duties as from time to time determined by the Chief Executive Officer. In the absence or disability of the President, the Vice Presidents, in the following order, shall perform all the duties of the President and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President: the Executive Vice President, if any, the Senior Vice President, if any, and the Vice Presidents in the order of their rank as fixed by the Board, or if not ranked, the Vice President designated by the Board. The Vice President shall have such other powers and perform such other duties as from time to time may be prescribed for them, respectively, by the Board.

Section 9. SECRETARY. The Secretary shall keep or cause to be kept, at the principal executive office and such other place as the Board may order, a book of minutes of all meetings of shareholders, the Board and its committees, with the time and place of holding, whether regular or special, how authorized, the notice thereof given, the names of those present at Board and committee meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof. The Secretary shall keep, or cause to be kept, a copy of the Bylaws of the corporation at the principal executive office or business office in accordance with Section 213 of the California General Corporation Law.

The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, if one be appointed, a share register, or a duplicate share register, showing the names of the shareholders and their addresses, the number of classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the Board and any committees thereof required by these Bylaws or by law to be given, shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

Section 10. CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the corporation, and shall send or cause to be sent to the shareholders of the corporation such financial statements and reports as are by law or these Bylaws required to be sent to them. The books of account shall at all times be open to inspection by any director.

The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board. The Chief Financial Officer shall disburse the funds of the corporation as may be ordered by the Board, shall render to the President and the directors, whenever they request it, an account of all transactions as Chief Financial Officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board.

ARTICLE V. Other Provisions.

Section 1. INSPECTION OF CORPORATE RECORDS.

(a) A shareholder or shareholders holding at least five percent in the aggregate of the outstanding voting shares of the corporation or who hold at least one percent of such voting shares and have filed a Schedule 14B with the United States Securities and Exchange Commission relating to the election of directors of the corporation shall have the absolute right to do either or both of the following:

(i) Inspect and copy the record of shareholders' names and addresses and shareholders during usual business hours upon five business days' prior written demand upon the corporation; or

(ii) Obtain from the transfer agent, if any, for the corporation, upon five business days' prior written demand and upon the tender of its usual charges for such a list (the amount of which charges shall be stated to the shareholder by the transfer agent upon request), a list of the shareholders' names and addresses who are entitled to vote for the election of directors and their shareholdings, as of the most recent complied or as of the date specified by the shareholder subsequent to the date of demand.

(b) The record of shareholders shall also be open to inspection and copying by any shareholder or holder of a voting trust certificate at any time during usual business hours upon written demand on the corporation, for a purpose reasonably related to such holder's interest as a shareholder or holder of a voting trust certificate.

(c) The accounting books and records and minutes of proceedings of the shareholders and the Board and committees of the Board shall be open to inspection upon written demand on the corporation of any shareholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a shareholder or as a holder of such voting trust certificate.

(d) Any inspection and copying under this Article may be made in person or by agent or attorney.

Section 2. INSPECTION OF BYLAWS. The corporation shall keep in its principal executive office in the State of California, or if its principal executive office is not in such State at its principal business office in such state, the original or copy of these Bylaws as amended to date, which shall be open to inspection by shareholders at all reasonable times during

office hours. If the principal executive office of the corporation is located outside the State of California and the corporation has no principal business office in such state, it shall upon the written request of any shareholder furnish to such shareholder a copy of these Bylaws as amended to date.

Section 3. ENDORSEMENT OF DOCUMENTS, CONTRACTS. Subject to the provisions of applicable law, any note, mortgage, evidence of indebtedness, contract, share certificate, conveyance or other instrument in writing and any assignment or endorsements thereof executed or entered into between the corporation and any other person, when signed by the Chairman of the Board, the President or any Vice President and the Secretary, any Assistant Secretary, the Chief Financial Officer, the Treasurer or any Assistant Treasurer of the corporation, shall be valid and binding on the corporation in the absence of actual knowledge on the part of the other person that the signing officers had no authority to execute the same. Any such instruments may be signed by any other person or persons and in such manner as from time to time shall be determined by the Board, and, unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or amount.

Section 4. CERTIFICATES OF STOCK. Every holder of shares of the corporation shall be entitled to have a certificate signed in the name of the corporation by the Chairman of the Board, the President or a Vice President and by the Chief Financial Officer, the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be facsimile. If any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

Certificates for shares may be issued prior to full payment under such restrictions and for such purposes as the Board may provide; provided, however, that on any certificate issued to represent any partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated.

Except as provided in this Section, no new certificate for shares shall be issued in lieu of an old one unless the latter is surrendered and cancelled at the same time. The Board may, however, if any certificate for shares is alleged to have been lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, and the corporation may require that the corporation be given a bond or other adequate security sufficient to indemnify it against any claim that may be made against it (including expense or liability) on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

Section 5. REPRESENTATION OF SHARES OF OTHER CORPORATIONS. The Chief Executive Officer, the President or any other officer or officers authorized by the Board or the Chief Executive Officer are each authorized to vote, represent and exercise on behalf of the corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the corporation. The authority herein granted may be exercised either by any such officer in person or by any other person authorized so to do by proxy or power of attorney duly executed by said officer.

Section 6. STOCK PURCHASE PLANS. The corporation may adopt and carry out a stock purchase plan or agreement or stock option plan or agreement providing for the issue and sale for such consideration as may be fixed of its unissued shares, or of issued shares

acquired or to be acquired, to one or more of the employees or directors of the corporation or of a subsidiary or to a trustee on their behalf and for the payment for such shares in installments or at one time, and may provide for aiding any such persons in paying for such shares by compensation for services rendered, promissory notes or otherwise.

Any such stock purchase plan or agreement or stock option plan or agreement may include, among other features, the fixing of eligibility for participation therein, the class and price of shares to be issued or sold under the plan or agreement, the number of shares which may be subscribed for, the method of payment therefor, the reservation of title until full payment therefor, the effect of the termination of employment, an option or obligation on the part of the corporation, to repurchase the shares upon termination of employment, restrictions upon transfer of the shares, the time limits of and termination of the plan, and any other matters, not in violation of applicable law, as may be included in the plan as approved or authorized by the Board or any committee of the Board.

Section 7. CONSTRUCTION AND DEFINITIONS. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Provisions of the California Corporations Code and in the California General Corporation Law shall govern the construction of these Bylaws.

ARTICLE VI. Indemnification.

Section 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

(a) Each person who was or is a party or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation, or of any predecessor corporation, or is or was a director or officer who is or was serving at the request of the corporation as a director, officer, employee or other agent of another corporation, a partnership, joint venture, trust or other enterprise (including service with respect to corporation-sponsored employee benefit plans), whether the basis of such proceeding is alleged action or inaction in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permissible under California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith; provided, however, that amounts paid in settlement of a proceeding shall be payable only if the settlement is approved in writing by the corporation. Such indemnification shall continue as to a person who has ceased to be a director or officer for acts performed while a director or officer and shall inure to the benefit of his or her heirs, executors and administrators. Notwithstanding the foregoing, the corporation shall indemnify any such person in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of the corporation. The right to indemnification conferred in this Article shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of final disposition to the fullest extent permitted by law; provided, however, that the payment under this Article of such expenses in advance of the final disposition of a proceedings shall be conditioned upon the delivery to the corporation of a written request for such advance and of an undertaking by or on behalf of the director or officer to repay all amounts so advanced if it shall be ultimately determined that such director or officer is not entitled to be indemnified.

(b) Notwithstanding the foregoing or any other provisions under this Article, the corporation shall not be liable under this Article to indemnify a director or officer against expenses, liabilities or losses incurred or suffered in connection with, or make any advances with respect to, any proceeding against a director or officer: (i) as to which the corporation is prohibited by applicable law from paying as an indemnity; (ii) with respect to expenses of defense or investigation, if such expenses were or are incurred without the corporation's consent (which consent may not be unreasonably withheld); (iii) for which payment is actually made to the director or officer under a valid and collectible insurance policy maintained by the corporation, except in respect of any excess beyond the amount of payment under such insurance; (iv) for which payment is actually made to the director or officer under an indemnity by the corporation otherwise than pursuant to this Bylaw Article, except in respect of any excess beyond the amount of payment under such indemnity; (v) based upon or attributable to the director or officer gaining in fact any personal profit or advantage to which he or she was not legally entitled; (vi) for an accounting of profits made from the purchase or sale by the director or officer of securities of the corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law; or (vii) based upon acts or omissions involving intentional misconduct or a knowing and culpable violation of law.

Section 2. INDEMNIFICATION OF EMPLOYEES AND AGENTS. A person who was or is a party or is threatened to be made a party to or is involved in any proceeding by reason of the fact that he or she is or was an employee or agent of the corporation or is or was an employee or agent of the corporation who is or was serving at the request of the corporation as an employee or agent of another enterprise, including service with respect to corporation-sponsored employee benefits plans, whether the basis of such action is alleged action or inaction in an official capacity or in any other capacity while serving as an employee or agent, may, upon appropriate action by the corporation and subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation up to the fullest extent permitted by California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith.

Section 3. RIGHT OF DIRECTORS AND OFFICERS TO BRING SUIT. If a claim under Section 1 of this Article is not paid by the corporation or on its behalf within 90 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim, and, if successful in whole or in part, the claimant also shall be entitled to be paid the expense of prosecuting such claim.

Section 4. SUCCESSFUL DEFENSE. Notwithstanding any other provision of this Article, to the extent that a director or officer has been successful on the merits or otherwise (including the dismissal of a proceeding without prejudice or the settlement with the written consent of the corporation of a proceeding without admission of liability) in defense of any proceeding referred to in Section 1 or in defense of any claim, issue or matter therein, such director or officer shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

Section 5. INDEMNITY AGREEMENTS. The corporation may enter into agreements with any director, officer, employee or agent of the corporation providing for indemnification to the fullest extent permissible under applicable law and the corporation's Articles.

Section 6. SUBROGATION. In the event of payment by the corporation of a claim under Section 1 of this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the indemnified person, who shall execute all papers required and shall do everything that may be necessary or appropriate to secure such rights, including the execution of such documents necessary or appropriate to enable the corporation effectively to bring suit to enforce such rights.

Section 7. NON-EXCLUSIVITY RIGHTS. The right to indemnification provided by this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

Section 8. INSURANCE. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, a partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under California law.

Section 9. EXPENSES AS A WITNESS. To the extent that any director, officer or employee of the corporation is by reason of such position a witness in any action, suit or proceeding, he or she will be indemnified against all costs and expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

Section 10. NONAPPLICABILITY TO FIDUCIARIES OF EMPLOYEE BENEFIT PLANS. This Article does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the corporation. The corporation shall have power to indemnify such trustee, investment manager or other fiduciary to the extent permitted by subdivision (f) of Section 207 of the California General Corporation Law.

Section 11. SEPARABILITY. Each and every paragraph, sentence, term and provision of this Article is separate and distinct so that if any paragraph, sentence, term or provision shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the corporation and the claimant, the broadest possible indemnification permitted under applicable law.

Section 12. EFFECT OF REPEAL OR MODIFICATION. Any repeal or modification of this Article shall not adversely affect any right of indemnification of a director, officer, employee or agent of the corporation existing at the time of such repeal or modification with respect to any action or omission occurring prior to such repeal or modification.

ARTICLE VII. Emergency Provisions.

Section 1. GENERAL. The provisions of this Article shall be operative only during a national emergency declared by the President of the United States or the person performing the President's functions, or in the event of a nuclear, atomic or other attack on the United States or a disaster making it impossible or impracticable for the corporation to conduct its business without recourse to the provisions of this Article. Said provisions in such event shall override all other Bylaws of the corporation in conflict with any provisions of this Article, and shall remain operative so long as it remains impossible or impracticable to continue the business

of the corporation otherwise, but thereafter shall be inoperative; provided that all actions taken in good faith pursuant to such provisions shall thereafter remain in full force and effect unless and until revoked by action taken pursuant to the provisions of the Bylaws other than those contained in this Article.

Section 2. UNAVAILABLE DIRECTORS. All directors of the corporation who are not available to perform their duties as directors by reason of physical or mental incapacity or for any other reason or who are unwilling to perform their duties or whose whereabouts are unknown shall automatically cease to be directors, with like effect as if such persons had resigned as directors, so long as such unavailability continues.

Section 3. AUTHORIZED NUMBER OF DIRECTORS. The authorized number of directors shall be the number of directors remaining after eliminating those who have ceased to be directors pursuant to Section 2, or the minimum number required by law, whichever number is greater.

Section 4. QUORUM. The number of directors necessary to constitute a quorum shall be one-third of the authorized number of directors as specified in the foregoing Section, or other minimum number as, pursuant to the law or lawful decree then in force, it is possible for the Bylaws of a corporation to specify.

Section 5. CREATION OF EMERGENCY COMMITTEE. In the event the number of directors remaining after eliminating those who have ceased to be directors pursuant to Section 2 is less than the minimum number of authorized directors required by law, then until the appointment of additional directors to make up such required minimum, all the powers and authorities which the Board could by law delegate, including all powers and authorities which the Board could delegate to a committee, shall be automatically vested in an emergency committee, and the emergency committee shall thereafter manage the affairs of the corporation pursuant to such powers and authorities and shall have all other powers and authorities as may by law or lawful decree be conferred on any person or body of persons during a period of emergency.

Section 6. CONSTITUTION OF EMERGENCY COMMITTEE. The emergency committee shall consist of all the directors remaining after eliminating those who have ceased to be directors pursuant to Section 2, provided that such remaining directors are not less than three in number. In the event such remaining directors are less than three in number the emergency committee shall consist of three persons, who shall be the remaining director or directors and either one or two officers or employees of the corporation as the remaining director or directors may in writing designate. If there is no remaining director, the emergency committee shall consist of the three most senior officers of the corporation who are available to serve, and if and to the extent that officers are not available, the most senior employees of the corporation. Seniority shall be determined in accordance with any designation of seniority in the minutes of the proceedings of the Board, and in the absence of such designation, shall be determined by rate of remuneration. In the event that there are no remaining directors and no officers or employees of the corporation available, the emergency committee shall consist of three persons designated in writing by the shareholder owning the largest number of shares of record as of the date of the last record date.

Section 7. POWERS OF EMERGENCY COMMITTEE. The emergency committee, once appointed, shall govern its own procedures and shall have power to increase the number of members thereof beyond the original number, and in the event of a vacancy or vacancies therein, arising at any time, the remaining member or members of the emergency committee shall have the power to fill such vacancy or vacancies. In the event at any time after

its appointment all members of the emergency committee shall die or resign or become unavailable to act for any reason whatsoever, a new emergency committee shall be appointed in accordance with the foregoing provisions of this Article.

Section 8. DIRECTORS BECOMING AVAILABLE. Any person who has ceased to be a director pursuant to the provisions of Section 2 and who thereafter becomes available to serve as a director shall automatically become a member of the emergency committee.

Section 9. ELECTION OF BOARD OF DIRECTORS. The emergency committee, shall, as soon after its appointment as is practicable, take all requisite action to secure the election of a board of directors, and upon such election, all the powers and authorities of the emergency committee shall cease.

Section 10. TERMINATION OF EMERGENCY COMMITTEE. In the event, after the appointment of an emergency committee, a sufficient number of persons who ceased to be directors pursuant to Section 2 become available to serve as directors, so that if they had not ceased to be directors as aforesaid, there would be enough directors to constitute the minimum number of directors required by law, then all such persons shall automatically be deemed to be reappointed as directors and the powers and authorities of the emergency committee shall be at an end.

ARTICLE VIII. Amendments.

Subject to the Articles of Incorporation, these Bylaws may be amended or repealed either by approval of the outstanding shares (as defined in Section 152 of the California General Corporation Law) or by the approval of the Board; provided, however, that after the issuance of shares, a bylaw specifying or changing a fixed number of directors or the maximum or minimum number or changing from a fixed to a variable number of directors or vice versa may only be adopted by approval of the outstanding shares and a bylaw reducing the fixed number or the minimum number of directors to a number less than five shall be subject to the provisions of Section 212(a) of the California General Corporation Law.

Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR

I, Floyd E. Wicks, Chief Executive Officer, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2005 of American States Water Company (referred to as “the Registrant”);
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- 4) The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting.
- 5) The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal controls over financial reporting.

Dated: May 10, 2005

By: /s/ FLOYD E. WICKS
Floyd E. Wicks
Chief Executive Officer

Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for SCW

I, Floyd E. Wicks, Chief Executive Officer, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2005 of Southern California Water Company (referred to as "SCW");
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the SCW as of, and for, the periods presented in this report;
- 4) SCW's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for SCW and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to SCW, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of SCW's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in SCW's internal control over financial reporting that occurred during SCW's most recent fiscal quarter (SCW's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, SCW's internal control over financial reporting.
- 5) SCW's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the SCW's auditors and the audit committee of SCW's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the SCW's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in SCW's internal controls over financial reporting.

Dated: May 10, 2005

By: /s/ FLOYD E. WICKS
Floyd E. Wicks
Chief Executive Officer

Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR

I, Robert J. Sprowls, Chief Financial Officer, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2005 of American States Water Company (referred to as “the Registrant”);
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- 4) The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting.
- 5) The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal controls over financial reporting.

Dated: May 10, 2005

By: /s/ ROBERT J. SPROWLS

Robert J. Sprowls
Senior Vice President-Finance, Chief Financial
Officer, Treasurer and Secretary

Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for SCW

I, Robert J. Sprowls, Chief Financial Officer, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period March 31, 2005 of Southern California Water Company (referred to as "SCW");
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of SCW as of, and for, the periods presented in this report;
- 4) SCW's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for SCW and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to SCW, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of SCW's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in SCW's internal control over financial reporting that occurred during SCW's most recent fiscal quarter (SCW's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, SCW's internal control over financial reporting.
- 5) SCW's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to SCW's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect SCW's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in SCW's internal controls over financial reporting.

Dated: May 10, 2005

By: /s/ ROBERT J. SPROWLS

Robert J. Sprowls
Senior Vice President-Finance, Chief Financial
Officer and Secretary

Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of American States Water Company and Southern California Water Company (the "Registrant") on Form 10-Q for the quarter ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Floyd E. Wicks, Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Floyd E. Wicks

Floyd E. Wicks
Chief Executive Officer

Date: May 10, 2005

***Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350).***

In connection with the Quarterly Report of American States Water Company and Southern California Water Company (the "Registrant") on Form 10-Q for the quarter ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Robert J. Sprowls, Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Robert J. Sprowls

Robert J. Sprowls
Senior Vice President-Finance, Chief Financial Officer, Treasurer and Secretary

Date: May 10, 2005