

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

- x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2006 or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission file number 001-14431

American States Water Company

(Exact Name of Registrant as Specified in Its Charter)

California
(State or Other Jurisdiction of Incorporation or Organization)

95-4676679
(IRS Employer Identification No.)

630 E. Foothill Blvd, San Dimas, CA
(Address of Principal Executive Offices)

91773-1207
(Zip Code)

(909) 394-3600
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Commission file number 001-12008

Golden State Water Company

(Exact Name of Registrant as Specified in Its Charter)

California
(State or Other Jurisdiction of Incorporation or Organization)

95-1243678
(IRS Employer Identification No.)

630 E. Foothill Blvd, San Dimas, CA
(Address of Principal Executive Offices)

91773-1212
(Zip Code)

(909) 394-3600
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a nonaccelerated file. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

American States Water Company Large accelerated filer o Accelerated filer x Nonaccelerated filer o
Golden State Water Company Large accelerated filer o Accelerated filer o Nonaccelerated filer x

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

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

As of November 8, 2006, the number of Common Shares outstanding, of American States Water Company was 17,038,477 shares.

As of November 8, 2006, all of the 122 outstanding Common Shares of Golden State Water Company were owned by American States Water Company.

AMERICAN STATES WATER COMPANY
and
GOLDEN STATE WATER COMPANY
FORM 10-Q

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Part II Other Information

PART I

Item 1. Financial Statements

General

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

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

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

Filing Format

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: American States Water Company (hereinafter "AWR") and Golden State Water Company (hereinafter "GSWC") (formerly known as Southern California Water Company). For more information, please see Note 1 to the Notes to Consolidated Financial Statements and the heading entitled General in Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations. References in this report to "Registrant" are to AWR and GSWC collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than GSWC.

Forward-Looking 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, GSWC'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 costs; future climatic conditions; and legislative, legal proceedings, regulatory and other circumstances affecting anticipated revenues and costs.

**AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
ASSETS
(Unaudited)**

<i>(in thousands)</i>	September 30, 2006	December 31, 2005
Utility Plant, at cost		
Water	\$ 899,598	\$ 869,471
Electric	62,197	61,386
	<u>961,795</u>	<u>930,857</u>
Less - Accumulated depreciation	(280,906)	(259,915)
	<u>680,889</u>	<u>670,942</u>
Construction work in progress	61,480	42,283
Net utility plant	<u>742,369</u>	<u>713,225</u>
Other Property and Investments		
Goodwill	11,778	11,841
Other property and investments	9,697	9,740
Total other property and investments	<u>21,475</u>	<u>21,581</u>
Current Assets		
Cash and cash equivalents	6,591	13,032
Accounts receivable-customers (less allowance for doubtful accounts of \$780 in 2006 and \$789 in 2005)	17,802	13,341
Unbilled revenue	18,762	15,195
Other accounts receivable (less allowance for doubtful accounts of \$144 in 2006 and \$337 in 2005)	9,923	10,844
Income taxes receivable	30	822
Materials and supplies, at average cost	1,545	1,421
Regulatory assets – current	3,233	3,946
Prepayments and other current assets	1,395	2,998
Unrealized gain on purchased power contracts	—	3,417
Costs and estimated earnings in excess of billings on uncompleted contracts	2,231	—
Deferred income taxes – current	4,709	1,692
Total current assets	<u>66,221</u>	<u>66,708</u>
Regulatory and Other Assets		
Regulatory assets	61,288	54,382
Other accounts receivable	9,148	8,820
Deferred income taxes	34	—
Other	8,173	8,419
Total regulatory and other assets	<u>78,643</u>	<u>71,621</u>
Total Assets	<u>\$ 908,708</u>	<u>\$ 873,135</u>

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>	September 30, 2006	December 31, 2005
Capitalization		
Common shares, no par value, no stated value	\$ 174,330	\$ 166,529
Earnings reinvested in the business	107,311	101,121
Accumulated other comprehensive loss	(3,556)	(3,556)
Total common shareholders' equity	<u>278,085</u>	<u>264,094</u>
Long-term debt	268,181	268,405
Total capitalization	<u>546,266</u>	<u>532,499</u>
Current Liabilities		

Notes payable to banks	25,000	27,000
Long-term debt – current	575	635
Accounts payable	23,284	19,653
Income taxes payable	4,392	1,534
Accrued employee expenses	4,428	5,879
Accrued interest	5,245	2,254
Regulatory liabilities – current	4,120	3,252
Deferred income taxes – current	—	86
Unrealized loss on purchased power contracts	2,468	—
Billings in excess of costs and estimated earnings on uncompleted contracts	1,910	—
Other	13,268	14,952
Total current liabilities	84,690	75,245
Other Credits		
Advances for construction	86,961	85,168
Contributions in aid of construction – net	86,708	83,976
Deferred income taxes	76,042	69,669
Unamortized investment tax credits	2,450	2,518
Accrued pension and other postretirement benefits	14,955	13,562
Regulatory liabilities	571	521
Billings in excess of costs and estimated earnings on uncompleted contracts	2,092	2,207
Other	7,973	7,770
Total other credits	277,752	265,391
Commitments and Contingencies (Note 8)	—	—
Total Capitalization and Liabilities	\$ 908,708	\$ 873,135

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 SEPTEMBER 30, 2006 AND 2005
(Unaudited)**

	Three Months Ended September 30,	
	2006	2005
<i>(in thousands, except per share amounts)</i>		
Operating Revenues		
Water	\$ 64,962	\$ 60,539
Electric	6,444	6,544
Other	2,335	1,008
Total operating revenues	73,741	68,091
Operating Expenses		
Water purchased	15,066	15,779
Power purchased for pumping	3,600	3,252
Groundwater production assessment	2,477	2,315
Power purchased for resale	2,659	3,075
Unrealized loss (gain) on purchased power contracts	2,807	(4,018)
Supply cost balancing accounts	244	514
Other operating expenses	6,677	4,850
Administrative and general expenses	12,614	10,342
Depreciation and amortization	6,634	4,734
Maintenance	3,395	2,905
Property and other taxes	2,656	2,572
Net gain on sale of property	(124)	—
Total operating expenses	58,705	46,320
Operating Income	15,036	21,771
Interest expense	(5,349)	193
Interest income	695	745
Income from operations before income tax expense	10,382	22,709
Income tax expense	4,809	10,475
Net Income	\$ 5,573	\$ 12,234

Weighted Average Number of Shares Outstanding	17,003	16,782
Basic Earnings Per Common Share	\$ 0.32	\$ 0.72
Weighted Average Number of Diluted Shares	17,057	16,887
Fully Diluted Earnings Per Share	\$ 0.32	\$ 0.72
Dividends Declared Per Common Share	\$ 0.225	\$ 0.225

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

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**AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)**

	Nine Months Ended September 30,	
	2006	2005
<i>(in thousands, except per share amounts)</i>		
Operating Revenues		
Water	\$ 166,233	\$ 155,611
Electric	21,816	20,105
Other	8,437	2,721
Total operating revenues	<u>196,486</u>	<u>178,437</u>
Operating Expenses		
Water purchased	34,326	35,742
Power purchased for pumping	7,620	6,923
Groundwater production assessment	6,799	6,079
Power purchased for resale	10,470	9,922
Unrealized loss (gain) on purchased power contracts	5,886	(7,492)
Supply cost balancing accounts	(93)	1,042
Other operating expenses	17,264	15,138
Administrative and general expenses	34,628	32,456
Depreciation and amortization	19,726	16,123
Maintenance	9,113	7,522
Property and other taxes	7,674	7,111
Net gain on sale of property	(124)	—
Gain on settlement for removal of wells	—	(760)
Total operating expenses	<u>153,289</u>	<u>129,806</u>
Operating Income	43,197	48,631
Interest expense	(16,037)	(9,341)
Interest income	2,643	801
Income from operations before income tax expense	29,803	40,091
Income tax expense	12,061	18,358
Net Income	<u>\$ 17,742</u>	<u>\$ 21,733</u>
Weighted Average Number of Shares Outstanding	16,898	16,773
Basic Earnings Per Common Share	\$ 1.03	\$ 1.29
Weighted Average Number of Diluted Shares	16,949	16,845
Fully Diluted Earnings Per Share	\$ 1.03	\$ 1.29
Dividends Declared Per Common Share	\$ 0.675	\$ 0.675

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

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2006	2005
Cash Flows From Operating Activities:		
Net income	\$ 17,742	\$ 21,733
Adjustments for non-cash items:		
Depreciation and amortization	19,726	16,123
Provision for doubtful accounts	538	311
Deferred income taxes, net regulatory asset for flow-through taxes, and investment tax credits	2,761	9,453
Unrealized loss (gain) on purchased power contracts	5,886	(7,492)
Stock-based compensation expense	427	110
Other - net	585	(57)
Changes in assets and liabilities:		
Accounts receivable - customers	(4,849)	(4,517)
Unbilled revenue	(3,567)	(3,657)
Other accounts receivable	443	(576)
Materials and supplies	(124)	61
Prepayments and other current assets	1,603	1,884
Regulatory assets - supply cost balancing accounts	(93)	1,042
Other assets	(6,906)	(2,143)
Accounts payable	3,631	265
Income taxes receivable/payable	3,650	8,741
Other liabilities	4,196	3,906
Net cash provided	<u>45,649</u>	<u>45,187</u>
Cash Flows From Investing Activities:		
Construction expenditures	(51,069)	(51,958)
Net cash used	<u>(51,069)</u>	<u>(51,958)</u>
Cash Flows From Financing Activities:		
Proceeds from issuance of common shares	1,625	830
Proceeds from stock option exercises	4,383	—
Tax benefits from exercise of stock-based awards	1,142	—
Receipt of advances for and contributions in aid of construction	6,718	10,350
Refunds on advances for construction	(3,072)	(3,147)
Repayments of long-term debt	(329)	(560)
Net change in notes payable to banks	(2,000)	10,000
Cash received on financing portion of purchased power contracts	2,007	2,007
Dividend equivalent rights paid	(187)	—
Tax benefits from payment of dividend equivalent rights	80	—
Dividends paid	(11,388)	(11,321)
Net cash (used) provided	<u>(1,021)</u>	<u>8,159</u>
Net (decrease) increase in cash and cash equivalents	(6,441)	1,388
Cash and cash equivalents, beginning of period	13,032	4,303
Cash and cash equivalents, end of period	<u>\$ 6,591</u>	<u>\$ 5,691</u>

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

GOLDEN STATE WATER COMPANY
BALANCE SHEETS
ASSETS
(Unaudited)

<i>(in thousands)</i>	September 30, 2006	December 31, 2005
Utility Plant, at cost		
Water	\$ 848,250	\$ 819,958
Electric	62,196	61,386
	<u>910,446</u>	<u>881,344</u>
Less - Accumulated depreciation	(266,178)	(246,649)
	<u>644,268</u>	<u>634,695</u>
Construction work in progress	58,735	38,334
Net utility plant	<u>703,003</u>	<u>673,029</u>

Other Property and Investments		
Other property and investments	7,312	7,364
Total other property and investments	<u>7,312</u>	<u>7,364</u>
Current Assets		
Cash and cash equivalents	2,657	8,788
Accounts receivable-customers (less allowance for doubtful accounts of \$753 in 2006 and \$765 in 2005)	17,323	12,919
Unbilled revenue	18,361	14,856
Inter-company receivable	258	226
Other accounts receivable (less allowance for doubtful accounts of \$141 in 2006 and \$334 in 2005)	2,869	6,106
Materials and supplies, at average cost	1,530	1,404
Regulatory assets - current	3,162	3,875
Prepayments and other current assets	1,238	2,795
Unrealized gain on purchased power contracts	—	3,417
Deferred income taxes - current	4,666	1,693
Total current assets	<u>52,064</u>	<u>56,079</u>
Regulatory and Other Assets		
Regulatory assets	61,288	54,382
Other accounts receivable	9,148	8,820
Other	7,407	7,575
Total regulatory and other assets	<u>77,843</u>	<u>70,777</u>
Total Assets	<u>\$ 840,222</u>	<u>\$ 807,249</u>

The accompanying notes are an integral part of these financial statements

**GOLDEN STATE WATER COMPANY
BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)**

<i>(in thousands)</i>	September 30, 2006	December 31, 2005
Capitalization		
Common shares, no par value, no stated value	\$ 161,179	\$ 159,429
Earnings reinvested in the business	104,447	99,645
Accumulated other comprehensive loss	(3,556)	(3,556)
Total common shareholder's equity	<u>262,070</u>	<u>255,518</u>
Long-term debt	261,316	261,540
Total capitalization	<u>523,386</u>	<u>517,058</u>
Current Liabilities		
Long-term debt – current	305	295
Accounts payable	20,430	17,914
Inter-company payable	3,488	65
Income taxes payable to Parent	7,174	2,268
Accrued employee expenses	4,063	5,507
Accrued interest	5,179	2,218
Regulatory liabilities – current	4,120	3,252
Unrealized loss on purchased power contracts	2,468	—
Deferred income taxes – current	—	109
Other	12,772	12,390
Total current liabilities	<u>59,999</u>	<u>44,018</u>
Other Credits		
Advances for construction	76,153	74,790
Contributions in aid of construction - net	84,917	83,055
Deferred income taxes	71,478	65,469
Unamortized investment tax credits	2,450	2,518
Accrued pension and other postretirement benefits	14,955	13,562
Other	6,884	6,779
Total other credits	<u>256,837</u>	<u>246,173</u>
Commitments and Contingencies (Note 8)	<u>—</u>	<u>—</u>
Total Capitalization and Liabilities	<u>\$ 840,222</u>	<u>\$ 807,249</u>

The accompanying notes are an integral part of these financial statements

GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

<i>(in thousands)</i>	Three Months Ended September 30,	
	2006	2005
Operating Revenues		
Water	\$ 62,842	\$ 58,568
Electric	6,443	6,544
Other	325	21
Total operating revenues	69,610	65,133
Operating Expenses		
Water purchased	14,696	15,446
Power purchased for pumping	3,394	3,080
Groundwater production assessment	2,477	2,316
Power purchased for resale	2,659	3,074
Unrealized loss (gain) on purchased power contracts	2,807	(4,018)
Supply cost balancing accounts	244	514
Other operating expenses	5,528	4,346
Administrative and general expenses	10,893	9,010
Depreciation and amortization	6,171	4,460
Maintenance	3,217	2,830
Property and other taxes	2,579	2,481
Net gain on sale of property	(132)	—
Total operating expenses	54,533	43,539
Operating Income	15,077	21,594
Interest expense	(4,861)	519
Interest income	479	735
Income from operations before income tax expense	10,695	22,848
Income tax expense	4,943	10,475
Net Income	\$ 5,752	\$ 12,373

The accompanying notes are an integral part of these financial statements

GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2006	2005
Operating Revenues		
Water	\$ 160,282	\$ 150,519
Electric	21,816	20,105
Other	3,244	76
Total operating revenues	185,342	170,700
Operating Expenses		
Water purchased	33,573	35,116
Power purchased for pumping	7,127	6,537
Groundwater production assessment	6,799	6,115
Power purchased for resale	10,470	9,921
Unrealized loss (gain) on purchased power contracts	5,886	(7,492)
Supply cost balancing accounts	(93)	1,042
Other operating expenses	14,961	13,656

Administrative and general expenses	29,988	27,958
Depreciation and amortization	18,336	15,290
Maintenance	8,559	7,085
Property and other taxes	7,372	6,799
Net gain on sale of property	(132)	—
Total operating expenses	<u>142,846</u>	<u>122,027</u>
Operating Income	42,496	48,673
Interest expense	(14,538)	(8,381)
Interest income	<u>2,203</u>	<u>767</u>
Income from operations before income tax expense	30,161	41,059
Income tax expense	<u>12,305</u>	<u>18,710</u>
Net Income	<u>\$ 17,856</u>	<u>\$ 22,349</u>

The accompanying notes are an integral part of these financial statements

GOLDEN STATE WATER COMPANY
CASH FLOW STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2006	2005
Cash Flows From Operating Activities:		
Net income	\$ 17,856	\$ 22,349
Adjustments for non-cash items:		
Depreciation and amortization	18,336	15,290
Provision for doubtful accounts	528	280
Deferred income taxes, net regulatory asset for flow-through taxes, and investment tax credits	2,452	8,684
Unrealized loss (gain) on purchased power contracts	5,886	(7,492)
Stock-based compensation expense	402	110
Other – net	401	162
Changes in assets and liabilities:		
Accounts receivable – customers	(4,782)	(4,397)
Unbilled revenue	(3,505)	(3,600)
Other accounts receivable	2,759	615
Materials and supplies	(126)	63
Prepayments and other current assets	1,557	1,770
Regulatory assets - supply cost balancing accounts	(93)	1,042
Other assets	(4,764)	(1,959)
Accounts payable	2,516	465
Inter-company receivable/payable	891	3,182
Income taxes receivable/payable from/to Parent	4,906	7,867
Other liabilities	2,526	2,723
Net cash provided	<u>47,746</u>	<u>47,154</u>
Cash Flows From Investing Activities:		
Construction expenditures	(49,465)	(48,756)
Net cash used	<u>(49,465)</u>	<u>(48,756)</u>
Cash Flows From Financing Activities:		
Tax benefits from exercise of stock-based awards	1,131	—
Receipt of advances for and contributions in aid of construction	5,798	8,745
Refunds on advances for construction	(2,591)	(2,801)
Repayments of long-term debt	(259)	(222)
Net change in inter-company borrowings	2,500	7,300
Cash received on financing portion of purchased power contracts	2,007	2,007
Dividend equivalent rights paid	(171)	—
Tax benefits from payment of dividend equivalent rights	73	—
Dividends paid	(12,900)	(12,000)
Net cash (used) provided	<u>(4,412)</u>	<u>3,029</u>
Net (decrease) increase in cash and cash equivalents	(6,131)	1,427
Cash and cash equivalents, beginning of period	8,788	2,702

The accompanying notes are an integral part of these financial statements

**AMERICAN STATES WATER COMPANY
AND
GOLDEN STATE WATER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

Note 1 — Summary of Significant Accounting Policies:

General / Nature of Operations: American States Water Company (“AWR”) is the parent company of Golden State Water Company (“GSWC”), American States Utility Services, Inc. (“ASUS”) (and its subsidiaries: Fort Bliss Water Services Company (“FBWS”), Terrapin Utility Services, Inc. (“TUS”) and Old Dominion Utility Services, Inc. (“ODUS”)), and Chaparral City Water Company (“CCWC”). More than 90% of AWR’s assets consist of the common stock of GSWC and its revenues and operations are primarily those of GSWC. GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 254,000 water customers. GSWC also distributes electricity in several California mountain communities serving approximately 23,000 electric customers. The California Public Utilities Commission (“CPUC”) regulates GSWC’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”) serving approximately 13,000 customers in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. ASUS performs water-related services and operations on a contract basis. There is no direct regulatory oversight by either the CPUC or the ACC of the operation or rates of the contracted services provided by ASUS and its wholly owned subsidiaries or by AWR.

FBWS operates 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”). TUS took over the operation and maintenance of the water and wastewater systems at Andrews Air Force Base in Maryland on February 1, 2006 and commenced operation of these systems on that date pursuant to the terms of a 50-year contract with the U.S. Government. On December 14, 2005, the Maryland Public Service Commission determined it was in the public interest and consistent with public convenience and necessity to conditionally approve the right of TUS to operate in accordance with the terms and conditions of the contract with the U.S. Government. ODUS assumed the operation and maintenance of the wastewater systems at Fort Lee in Virginia on February 23, 2006 and the water and wastewater systems at Fort Eustis, Fort Monroe and Fort Story in Virginia on April 3, 2006 and commenced operation and maintenance of these systems on those dates pursuant to the terms of 50-year contracts with the U.S. Government. The Virginia State Corporation Commission exercises jurisdiction over ODUS as a public service company.

Basis of Presentation: The consolidated financial statements of AWR include the accounts of AWR and its subsidiaries, all of which are wholly owned. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Inter-company transactions and balances have been eliminated in the AWR consolidated financial statements. The 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, 2005 filed with the SEC. Certain prior-period amounts were reclassified to conform to the September 30, 2006 financial statement presentation.

GSWC’s Related Party Transactions: GSWC and other subsidiaries provide and receive various services to and from their parent, AWR, and among themselves. In addition, AWR has an \$85 million syndicated credit facility. AWR borrows under this facility and provides funds to its subsidiaries, including GSWC, in support of their operations. Amounts owed to AWR for borrowings under this facility represent the majority of GSWC’s inter-company payables on GSWC’s balance sheets as of September 30, 2006 and December 31, 2005. The interest rate charged to GSWC is sufficient to cover AWR’s interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to its affiliates using agreed upon allocation factors.

New Accounting Pronouncements: Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment,” which requires the recognition of compensation expense related to the fair value of stock-based compensation awards. See Note 6 for further details.

In March 2006, the FASB Emerging Issues Task Force (“EITF”) issued EITF No. 06-03, “How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)”, which provides clarifying guidance on how to present sales taxes in the income statement. This guidance is effective for periods beginning after December 15, 2006, with early application of the guidance permitted. Registrant is currently assessing the impact of the EITF on its financial statements.

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109.” This Interpretation prescribes a recognition threshold and measurement attribute for the financial

statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 31, 2006. Registrant will implement the new guidance effective January 1, 2007 and is currently assessing the impact of the Interpretation on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is encouraged, provided that Registrant has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. Registrant will implement the new standard effective January 1, 2008. Registrant is currently evaluating the impact SFAS No. 157 may have on its financial statements and disclosures.

In September 2006, the FASB also issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS 158 requires that Registrant recognize the overfunded or underfunded status of its defined benefit and retiree medical plans as an asset or liability in its 2006 year-end balance sheet, with changes in the funded status recognized through comprehensive income in the year in which they occur. Registrant is currently evaluating the impact of adopting SFAS No. 158 on its financial statements including the possible regulatory accounting treatment and will implement the new standard by December 31, 2006.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 establishes an approach that requires quantification of financial statement errors based on the effects of the error on each of the company's financial statements and the related financial statement disclosures. SAB No. 108 is effective as of the end of Registrant's 2006 fiscal year, allowing a one-time transitional cumulative effect adjustment to retained earnings as of January 1, 2006 for errors that were not previously deemed material, but are material under the guidance in SAB 108. Registrant is currently evaluating the impact of adopting SAB No. 108 on its financial statements and will implement the new guidance by December 31, 2006. Registrant believes SAB No. 108 will not have a material impact on its results of operations or financial position.

Note 2 — Regulatory Matters:

In accordance with accounting principles for rate-regulated enterprises, Registrant records regulatory assets, which represent probable future revenues associated with certain costs that will be recovered from customers through the ratemaking process, and regulatory liabilities, which represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process. At September 30, 2006, Registrant had \$8.9 million of regulatory assets not accruing carrying costs. Of this amount, \$7.3 million represents deferred income taxes due to accelerated tax benefits previously flowed-through to ratepayers, which will be included in rates concurrently with recognition of the associated tax expense. In addition, \$1.6 million in deferred charges for rate case applications was recorded as other regulatory assets that Registrant recovers in rates over a short period and for which no recovery of carrying costs is earned.

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

<i>(In thousands)</i>	September 30, 2006	December 31, 2005
GSWC		
Supply cost balancing accounts	\$ 16,920	\$ 19,624
Supply cost memorandum accounts net under-collections	6,043	3,151
Costs deferred for future recovery on Aerojet case	21,334	21,109
Flow-through taxes, net	7,346	6,939
Electric transmission line abandonment costs	3,333	3,428
Asset retirement obligations	3,189	2,928
Low income balancing accounts	3,503	2,846
General rate case memorandum accounts	—	209
Refund of water rights lease revenues	(3,732)	(6,474)
Other regulatory assets	2,394	1,245
Total GSWC	<u>\$ 60,330</u>	<u>\$ 55,005</u>
CCWC		
Asset retirement obligations	47	44
Other regulatory assets/liabilities, net	(547)	(494)
Total AWR	<u>\$ 59,830</u>	<u>\$ 54,555</u>

Supply Cost Balancing and Memorandum Accounts:

Electric Supply Cost Balancing Account – Electric power costs incurred by GSWC's Bear Valley Electric division continue to be charged to its electric supply cost balancing account. The under-collection in the electric supply cost balancing account is \$19.6 million at September 30, 2006. The balance in the electric supply balancing account is primarily impacted by (i) a surcharge to decrease previously under-collected energy costs; (ii) changes in purchased energy costs; and (iii) changes in power system delivery costs.

The CPUC has authorized GSWC to collect a surcharge from its customers of 2.2¢ per kilowatt hour through August 2011, to enable GSWC to recover an under-collection of approximately \$23.1 million at the end of 2001 which had been incurred during the energy crisis in late 2000 and 2001. GSWC sold 32,049,785 and 31,123,833 kilowatt hours of electricity to its Bear Valley Electric division customers for the three months ended September 30, 2006 and 2005, respectively, and 109,125,050 and 101,438,647 kilowatt hours for the nine months ended September 30, 2006 and 2005, respectively. As a result, the supply cost balancing account was reduced by approximately \$710,000 and \$689,000 for the three months ended September 30, 2006 and 2005, respectively, and approximately \$2,416,000 and \$2,246,000 for the nine months ended September 30, 2006 and 2005, respectively. Approximately \$14.3 million of the under-collection incurred during the energy crisis in late 2000 and 2001 has been recovered through this surcharge. GSWC anticipates the

surcharge, based on electricity sales, to be sufficient for it to recover the amount of the under-collected balance incurred during the energy crisis by August 2011.

The purchased energy costs that are recorded in the supply cost balancing account are subject to a price cap by terms of the 2001 settlement with the CPUC. The Bear Valley Electric division of GSWC is allowed to include up to a weighted average annual energy purchase cost of \$77 per megawatt-hour ("MWh") through August 2011 in its electric supply cost balancing account for purchased energy costs. To the extent that the actual weighted average annual cost for power purchased exceeds the \$77 per MWh amount, GSWC will not be able to include these amounts in its balancing account and such amounts will be expensed. During the three months ended September 30,

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2006 and 2005, there was no expense over the \$77 per MWh cap because of increases in GSWC's sales of surplus energy into the spot market. During the nine months ended September 30, 2006 and 2005, GSWC expensed approximately \$40,400 and \$6,400 for costs over \$77 per MWh, respectively.

Charges to GSWC by Southern California Edison ("Edison") associated with the transportation of energy over Edison's power system and the abandonment of a transmission line upgrade have increased under Edison's tariff to levels that exceed the amounts authorized by the CPUC in Bear Valley Electric's retail power rates to its customers. The incremental cost increase to GSWC from this tariff above the amounts included in rates is \$38,137 per month. These increases have been included in the balancing account for subsequent recovery from customers. The incoming power system delivery costs are not subject to any price caps.

In summary, for the three months ended September 30, 2006 and 2005, approximately \$867,000 and \$355,000 of over-collections, respectively, were recorded in the electric supply cost balancing account, net of amortization of approximately \$710,000 and \$689,000, respectively. For the nine months ended September 30, 2006 and 2005, approximately \$1.5 million and \$1.6 million of over-collections were recorded in the electric supply cost balancing account, respectively, net of amortization of approximately \$2.4 million and \$2.2 million, respectively.

Other components, such as interest accrued on cumulative under-collected balance and power loss during transmission, also affect the balance of the electric supply cost balancing account.

Water Supply Cost Memorandum/Balancing Accounts – In a CPUC decision issued on June 19, 2003 related to memorandum supply cost accounts, all water utilities regulated by the CPUC were required to seek review of under- and over- collections by filing an advice letter annually and the utility's recovery of such expenses has been reduced by the amount exceeding the authorized rate of return. On April 13, 2006, the CPUC approved a decision eliminating the earnings test adopted in the June 2003 decision. The recent decision also eliminated the need to make an annual filing. Pursuant to this order, GSWC recognized a cumulative under-collection of approximately \$636,000 to the supply cost memorandum account provisions in the second quarter of 2006 for the under-collected balances not recognized at March 31, 2006 and began recording under- and over- collections on a monthly basis thereafter commencing with the second quarter of 2006. For the three months ended September 30, 2006 and 2005, approximately \$645,000 of under-collections and \$130,000 of over-collections, respectively, were recorded in the water supply cost memorandum/balancing accounts, net of amortization of approximately \$730,000 and \$75,000, respectively. For the nine months ended September 30, 2006 and 2005, approximately \$1.6 million and \$670,000 of under-collections were recorded in the memorandum/balancing accounts, respectively, net of amortization of approximately \$1.3 million and \$367,000, respectively.

Costs Deferred for Future Recovery:

In 1999, GSWC sued Aerojet-General Corporation ("Aerojet") for contaminating the Sacramento County Groundwater Basin, which affected certain GSWC wells. On a related matter, GSWC 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 GSWC in prosecuting the cases against Aerojet and the State, less any recovery from the defendants or others.

On July 21, 2005, the CPUC authorized GSWC to collect approximately \$21.3 million of the Aerojet litigation memorandum account, through a rate surcharge, which will continue for no longer than 20 years. Beginning in October 2005, new rates went into effect to begin amortizing the memorandum account over a 20-year period. A rate surcharge generating approximately \$328,000 and \$791,000 was billed to customers during the three and nine months ended September 30, 2006, respectively. GSWC will keep the Aerojet memorandum account open until it is fully amortized, but no longer than 20 years. However, no costs will be added to the memorandum account, other than on-going interest charges approved by the decision. Pursuant to the decision, additional interest of approximately \$279,000 and \$1.1 million were added to the Aerojet litigation memorandum account during the three and nine months ended September 30, 2006, respectively.

It is management's intention to offset any settlement proceeds from Aerojet that may occur pursuant to the settlement agreement against the balance in the memorandum account, with the exception of an \$8 million payment guaranteed by Aerojet (for capital investments), with interest due GSWC, to be paid in full over 5 years, beginning in 2009. Pursuant to such settlement agreement, Aerojet has agreed to reimburse GSWC \$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

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upon the issuance of land use approvals for development in a defined area within Aerojet property in Eastern Sacramento County and the receipt of certain fees in connection with such development. On April 7, 2006, GSWC filed an advice letter with the CPUC to incorporate the Westborough development into the Arden Cordova service area and to provide water service to that new development. The City of Folsom filed a protest of GSWC's advice letter on April 27, 2006. GSWC cannot predict the outcome of the City's protest nor the future development within Aerojet's property.

Refund of Water Rights Lease Revenues:

In 1994, GSWC entered into a contract to lease to the City of Folsom, 5,000 acre-feet per year of water rights from the American River. GSWC included all associated revenues in a nonoperating income account. In a decision issued on March 16, 2004, the CPUC ordered GSWC to refund 70 percent of the total amount of lease revenues received since 1994, plus interest, to customers. Pursuant to the order, refunds of approximately \$170,000 and \$186,000 were provided to customers during the three months ended September 30, 2006 and 2005, respectively, and approximately \$426,000 and \$455,000 were provided to customers during the nine months ended September 30, 2006 and 2005, respectively. The refunds will be made over a 9-year period which commenced in June 2004.

Pursuant to the March 2004 CPUC order, the apportionment of any lease revenues that GSWC collects commencing in January 2004 was to be determined by a later decision. Pending that later decision and beginning in the first quarter of 2004, all amounts billed to the City of Folsom had been included in a regulatory liability account and no amounts were recognized as revenue until uncertainties about this matter were resolved with the CPUC. On April 13, 2006, the CPUC authorized GSWC to reinvest all lease revenues received from the City of Folsom since January, 2004, inclusive of the balances in the regulatory liability accounts, in water system infrastructure and to include such investments in the rate base upon which GSWC earns a rate of return. As a result, GSWC transferred approximately \$2.3 million of water rights lease revenues received from the City of Folsom in 2004 and 2005 from the regulatory liability account into other operating revenues in the first quarter of 2006. GSWC also recorded additional other operating revenues of approximately \$311,000 and \$909,000 reflecting water rights revenues for the three and nine months ended September 30, 2006, respectively.

Outside Services Memorandum Account:

In April 2006, the CPUC approved GSWC's Region II advice letter which requested recovery of the expenses recorded in the Outside Services Memorandum Account ("OSMA"), as of December 31, 2005. The decision authorized the recovery of this memorandum account to record costs incurred while working with the Water Replenishment District ("WRD"), WRD Technical Advisory Committee, Central and West Basin Municipal Water Districts, Metropolitan Water District, West Basin Water Association and Central Basin Water Association on water supply reliability and rate-related issues in Region II. GSWC incurred approximately \$374,000 and \$345,000 in the OSMA in 2004 and 2005, respectively. GSWC sought and received authorization to amortize the cumulative total of approximately \$719,000 over a 12-month period through customer rates. Accordingly, GSWC recorded a regulatory asset for this amount in April of 2006 with an offset and reduction to outside legal services recorded in administrative and general expenses during the second quarter of 2006. A surcharge went into effect in April of 2006 and accordingly, GSWC began amortizing the OSMA account. Revenues of approximately \$200,000 and \$304,000 were received from customers during the three and nine months ended September 30, 2006, respectively, relating to this surcharge. GSWC also booked the amortization for these amounts received to its OSMA memorandum account; therefore, there was no net impact on earnings. The surcharge will be in place for a 12-month period from the effective date.

Note 3 — Earnings per Share/Capital Stock:

In accordance with the Emerging Issues Task Force ("EITF") No. 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128", Registrant uses the "two-class" method of computing earnings per share ("EPS"). The "two-class" method is an earnings allocation formula that determines EPS for each class of common stock and participating security. AWR has participating securities related to stock options and restricted stock units that earn dividend equivalents on an equal basis with AWR's Common Shares (the "Common Shares") that have been issued under AWR's 2000 Stock Incentive Plan and 2003 Non-Employee Directors Stock Plan. In applying the "two-class" method, undistributed earnings are allocated to both common shares and participating securities. The following is a reconciliation of Registrant's net income and weighted average Common Shares outstanding for calculating basic net income per share:

<i>Basic</i> <i>(in thousands, except per share amounts)</i>	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	\$ 5,573	\$ 12,234	\$ 17,742	\$ 21,733
Less: (a) distributed earnings to common shareholders	3,826	3,776	11,406	11,322
distributed earnings to participating securities	80	—	234	—
Undistributed earnings	1,667	8,458	6,102	10,411
(b) Undistributed earnings allocated to common	1,633	8,315	5,980	10,235
Undistributed earnings allocated to participating	34	143	122	176
Total income available to common shareholders, basic (a)+(b)	\$ 5,459	\$ 12,091	\$ 17,386	\$ 21,557
Weighted average Common Shares outstanding, basic	17,003	16,782	16,898	16,773
Basic earnings per Common Share	\$ 0.32	\$ 0.72	\$ 1.03	\$ 1.29

Diluted EPS is based upon the weighted average number of Common Shares including both outstanding shares and shares potentially issuable in connection with stock options and restricted stock units granted under Registrant's 2000 Stock Incentive Plan and 2003 Non-Employee Directors Stock Plan, and net income. At September 30, 2006 and 2005 there were 603,245 and 686,600 options outstanding, respectively, under these Plans. At September 30, 2006 and 2005, there were also 47,629 and 30,800 restricted stock units outstanding, respectively. The following is a reconciliation of Registrant's net income and weighted average Common Shares outstanding for calculating diluted net income per share:

<i>Diluted</i> <i>(in thousands, except per share amounts)</i>	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2006	2005	2006	2005
Common shareholders earnings, basic	\$ 5,459	\$ 12,091	\$ 17,386	\$ 21,557
Undistributed earnings for dilutive stock options (1)	—	—	—	—
Total common shareholders earnings, diluted	\$ 5,459	\$ 12,091	\$ 17,386	\$ 21,557
Weighted average Common Shares outstanding, basic	17,003	16,782	16,898	16,773

Stock-based compensation (2)	54	105	51	72
Weighted average Common Shares outstanding, diluted	<u>17,057</u>	<u>16,887</u>	<u>16,949</u>	<u>16,845</u>
Diluted earnings per Common Share	<u>\$ 0.32</u>	<u>\$ 0.72</u>	<u>\$ 1.03</u>	<u>\$ 1.29</u>

- (1) Undistributed earnings allocated to participating securities were not included due to their antidilutive effect on diluted earnings per share.
- (2) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in calculation of diluted EPS, 199,818 stock options at September 30, 2006 were deemed to be outstanding in accordance with SFAS No. 128, "Earnings Per Share". All of the stock options and restricted stock units at September 30, 2005 were included in the calculation of diluted EPS for the three and nine months ended September 30, 2005.

Stock options of 403,427 and restricted stock units of 47,629 were outstanding at September 30, 2006, but not included in the computation of diluted EPS because they were antidilutive.

The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. The rights for Junior Participating Preferred Shares (the "Rights") are exercisable based solely on "a non-market-based contingency", and are not contingent upon the market price of the Company's stock. Therefore, the shares that would be issued if the Rights are exercised are not included in the calculation of diluted earnings per share.

During the three months ended September 30, 2006 and 2005, Registrant issued 16,168 and 9,468 Common Shares, for approximately \$602,000 and \$274,000, respectively, under the Registrant's Common Share Purchase and Dividend Reinvestment Plan ("DRP"), and the 401(k) Plan. During the nine months ended September 30, 2006 and

2005, Registrant issued 45,270 and 30,153 Common Shares, for approximately \$1,625,000 and \$830,000, respectively, under the Registrant's DRP and 401(k) Plan. In addition, during the three and nine months ended September 30, 2006, Registrant issued 42,144 and 190,976 Common Shares for approximately \$962,000 and \$4,383,000, respectively, as a result of the exercise of stock options. No cash proceeds received by AWR as a result of the exercise of these stock options have been distributed to any subsidiaries of AWR.

In addition, during the three months ended September 30, 2006 and 2005, Registrant purchased 1,028 and 26,009, respectively, Common Shares on the open market under the Registrant's DRP and 401(k) Plan, which were used to satisfy the requirements of these plans and programs. During the nine months ended September 30, 2006 and 2005, Registrant purchased 25,849 and 47,515, respectively, Common Shares on the open market under the Registrant's DRP and 401(k) Plan, for the same reason.

During the three months ended September 30, 2006 and 2005, AWR paid quarterly dividends to shareholders, totaling approximately \$3.8 million or \$0.225 per share. During the nine months ended September 30, 2006 and 2005, AWR paid quarterly dividends to shareholders, totaling approximately \$11.4 million and \$11.3 million, respectively, or \$0.675 per share.

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, GSWC 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. As a result, on a monthly basis, the related asset or liability is adjusted to reflect the fair market value at the end of the month. For the three months ended September 30, 2006 and 2005, GSWC recognized a pretax unrealized loss of approximately \$2.8 million and a pretax unrealized gain of approximately \$4.0 million, respectively. For the nine months ended September 30, 2006 and 2005, GSWC recognized a pretax unrealized loss of approximately \$5.9 million and a pretax unrealized gain of approximately \$7.5 million, respectively. 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. These contracts have been recognized at fair market value on the balance sheets resulting in a cumulative unrealized loss of approximately \$2.5 million as of September 30, 2006 since the inception of the contracts.

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. Monthly, 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 — Taxes:

As a regulated utility, GSWC treats certain temporary differences as flow-through adjustments in computing its income tax provision consistent with the income tax approach approved by the CPUC for ratemaking purposes. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase occurring in another period. Giving effect to these temporary differences as flow-through adjustments typically results in a greater variance between the effective tax rate ("ETR") and the statutory federal income tax rate in any given period than would otherwise exist if GSWC were not required to account for its income taxes as a regulated enterprise. During the second quarter of 2005, the recognition of the federal effect of state taxes was adjusted to conform to the flow-through method reflected in the tax calculation for ratemaking purposes, which partially defers the recognition of the effect to the subsequent tax year. This increased income tax expense by approximately \$33,000 for the three months ended September 30, 2006 and decreased income tax expense by approximately \$171,000 for the nine months ended September 30, 2006. During the third quarter of 2005, AWR filed an amended tax return for 2001 with the Internal Revenue Service ("IRS") which was subject to IRS and Congressional Joint Committee of Taxation ("JCT") review. During the second quarter of 2006, the IRS and JCT

reviews were completed and AWR received a refund in the amount of its original claim of \$3.0 million, with interest. Consequently, in the second quarter of 2006, AWR recorded a tax benefit of approximately \$400,000, of which \$351,000 was attributable to GSWC.

Note 6 — Stock-Based Compensation:

Summary Description of Stock Incentive Plans

AWR currently has two primary stock incentive plans for employees and for non-employee directors: the 2000 Stock Incentive Plan (the “2000 Employee Stock Plan”) and the 2003 Non-Employee Directors Stock Plan (the “Directors Stock Plan”), more fully described below.

2000 Employee Stock Plan – AWR adopted the 2000 Employee Stock Plan at the annual meeting of shareholders in 2000 to provide stock-based incentive awards in the form of stock options, and restricted stock to employees as a means of promoting the success of the Company by attracting, retaining and aligning the interests of employees with those of shareholders generally. The 2000 Employee Stock Plan was amended in January 2006 to also permit the grant of restricted stock units. There are 1,050,000 Common Shares reserved for issuance under the 2000 Employee Stock Plan, approximately 277,400 of which remain available for issuance as of September 30, 2006. The 2000 Employee Stock Plan is administered by the Compensation Committee of the Board of Directors (the “Committee”). For stock options, the Committee determines, among other things, the date of grant, the form, term, option exercise price, vesting and exercise terms of each option. Stock options granted by AWR have been in the form of nonqualified stock options, expire ten years from the date of grant, vest over a period of three years and are subject to earlier termination as provided in the form of option agreement approved by the Committee.

The option price per share is determined by the Committee at the time of grant, but may not be less than 100% of the fair market value of Common Shares on the date of grant. In addition, AWR may grant employees receiving a grant of stock options the right to receive cash dividends pursuant to the terms of a dividend equivalent rights agreement for a period of up to three years from the date of the option grant. For restricted stock, the Committee determines, among other things, the dividend, voting and other rights prior to vesting and the restrictions (which may be based on performance criteria, passage of time or other factors) imposed on the shares. For restricted stock units, the Committee determines, among other things, the vesting terms and form of pay-out. Each employee who receives a grant of a restricted stock unit is also generally entitled to dividend equivalent rights in the form of additional restricted stock units until vesting of the restricted stock units. The restricted stock units are a non-voting unit of measurement relative to one Common Share.

Directors Stock Plan – On May 20, 2003, the Board of Directors adopted the Directors Stock Plan, subject to shareholder approval. The shareholders approved the Directors Stock Plan at the May 2004 Annual Meeting. The Directors Stock Plan provides the non-employee directors with supplemental stock-based compensation and encourages them to increase their stock ownership in AWR. There are 250,000 Common Shares reserved for issuance under the Directors Stock Plan, approximately 168,900 of which remain available for issuance as of September 30, 2006. Pursuant to the Directors Stock Plan, non-employee directors are entitled to receive options to purchase 3,000 Common Shares at each annual meeting of shareholders commencing with the 2005 annual meeting of shareholders. AWR also granted options to each non-employee director to purchase 1,000 Common Shares at its annual shareholder meetings in 2003 and 2004. In addition, each non-employee director with no more than ten years of service with AWR is entitled to receive restricted stock units at each annual meeting in an amount equal to the then current annual retainer payable by AWR to each non-employee director divided by the fair market value of Common Shares on the last trading day prior to the annual meeting. All grants of stock options and restricted stock units are entitled to dividend equivalent rights payable in the form of additional restricted stock units under the terms of the Directors Stock Plan.

The stock options granted under the Directors Stock Plan are 10-year nonqualified stock options. The exercise price of the stock options must be 100% of the fair market value of Common Shares on the date of grant. Stock options granted under the Directors Stock Plan are fully vested and exercisable upon the date of grant. The restricted stock units are a non-voting unit of measurement relative to one Common Share. Restricted stock units with respect to dividend equivalent rights on stock options credited to the non-employee director are payable in Common Shares on the earlier of the date on which the stock option is exercised and three years from the date of grant of the stock option. Restricted stock units granted at each annual meeting of shareholders and restricted stock units with respect to dividend equivalent rights with respect thereto are payable solely in Common Shares on the

date that the participant terminates service as a director. Restricted stock units credited to each non-employee director’s account are at all times fully vested and non-forfeitable.

Change in Accounting Principle

Prior to January 1, 2006, Registrant accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Registrant also followed the disclosure requirements of SFAS No. 123, “Accounting for Stock-Based Compensation”, as amended by SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure”. Except for costs related to restricted stock units and restricted stock granted to directors and employees, no stock-based compensation cost was recognized in net income.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), “Share-Based Payment,” which requires the recognition of compensation expense related to the fair value of stock-based compensation awards. Under the provisions of SFAS No. 123(R), share-based compensation cost is measured by the Registrant at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee’s requisite service period (generally the vesting period of the equity grant). Registrant elected to adopt the modified prospective transition method as provided by SFAS No. 123(R). Accordingly, financial statement amounts for the prior periods presented in this Form 10-Q have not been restated to reflect the fair value method of expensing share-based compensation.

Effect of Stock-Based Compensation on Net Income

Prior to January 1, 2006, Registrant had previously adopted the “disclosure-only” provisions of SFAS No. 123, as amended by SFAS No. 148. Had Registrant accounted for stock-based compensation plans using the fair value based accounting method described by SFAS No. 123 for the periods prior to fiscal year 2006, Registrant’s net income and earnings per share for the three and nine months ended September 30, 2005 would have been changed to the pro forma amounts indicated below:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
<i>(dollars in thousands, except EPS)</i>		
Net income, as reported	\$ 12,234	\$ 21,733
Add: Stock-based compensation expense included in reported net income, net of tax	7	64
Less: Stock-based compensation expense determined under the fair-value accounting method, net of tax	(10)	(682)
Pro forma	<u>\$ 12,231</u>	<u>\$ 21,115</u>
Basic earnings per share:		
As reported	\$ 0.72	\$ 1.29
Pro forma	\$ 0.72	\$ 1.25
Diluted earnings per share:		
As reported	\$ 0.72	\$ 1.29
Pro forma	\$ 0.72	\$ 1.25

There were no material differences between the consolidated 2005 pro forma disclosures for AWR and the 2005 pro forma disclosures for GSWC.

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The following table presents share-based compensation expenses for the three and nine months ended September 30, 2006 and 2005 and included in administrative and general expenses in AWR and GSWC’s statements of income resulting from stock options, restricted stock and restricted stock units:

<i>(in thousands)</i>	AWR				GSWC			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005	2006	2005	2006	2005
Stock-based compensation related to:								
Stock options granted to employees and directors	\$ 60	\$ —	\$ 279	\$ —	\$ 54	\$ —	\$ 263	\$ —
Restricted stock units granted to employees	42	—	120	—	38	—	111	—
Restricted stock units granted to directors	—	12	28	110	—	12	28	110
Stock-based compensation recognized in the income statement, before taxes	<u>\$ 102</u>	<u>\$ 12</u>	<u>\$ 427</u>	<u>\$ 110</u>	<u>\$ 92</u>	<u>\$ 12</u>	<u>\$ 402</u>	<u>\$ 110</u>
Income tax benefit	(41)	(5)	(171)	(46)	(37)	(5)	(161)	(46)
Total stock-based compensation after income taxes	<u>\$ 61</u>	<u>\$ 7</u>	<u>\$ 256</u>	<u>\$ 64</u>	<u>\$ 55</u>	<u>\$ 7</u>	<u>\$ 241</u>	<u>\$ 64</u>

Compensation cost capitalized as part of utility plant for the three and nine months ended September 30, 2006 was approximately \$38,000 and \$166,000, respectively. In addition, pursuant to SFAS No. 123(R), dividend equivalent rights paid in cash in the amount of approximately \$187,000 and \$171,000 for AWR and GSWC, respectively, for the nine months ended September 30, 2006 were recognized as a reduction to retained earnings, net of tax benefit of approximately \$80,000 and \$73,000, respectively.

With the adoption of SFAS No. 123(R), Registrant elected to amortize stock-based compensation for awards granted on or after the adoption of SFAS No. 123(R) on January 1, 2006 on a straight-line basis over the requisite (vesting) period for the entire award. Registrant did not recognize compensation expense for employee share-based awards for the three and nine months ended September 30, 2005, when the exercise price of Registrant’s employee stock awards equaled the market price of the underlying stock on the date of grant. Registrant did recognize compensation expense under APB No. 25 relating to restricted stock units granted to directors. Non-vested stock options granted to employees prior to January 1, 2006 have terms that provide for the continuation of vesting upon termination of employment. Accordingly, these awards were deemed to be granted for past services from an accounting standpoint and any measured compensation cost was recognized in full in the pro forma disclosures at the date of grant. Therefore, upon implementation of SFAS No. 123(R), there was no remaining compensation cost to be recognized for these options granted prior to, but not yet vested as of January 1, 2006.

Valuation of Stock Options

Registrant estimated the fair value of stock options granted during the three and nine months ended September 30, 2006 and 2005 using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Registrant’s stock over the option’s expected term, the risk-free interest rate over the option’s expected term, and the Registrant’s expected annual dividend yield. Registrant believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of Registrant’s stock options granted during the three and nine months ended September 30, 2006 and 2005. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards. The fair value of stock units and restricted stock was determined based on the closing trading price of Common Shares on the grant date.

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The fair value of each option grant during the three and nine months ended September 30, 2006 and 2005 was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	2006	2005
Weighted-average fair value of option granted	\$ 8.01 - \$10.46	\$5.63
Risk-free interest rate	4.40% - 5.02%	3.93%
Expected annual dividend yield	2.77% - 3.08%	3.68%
Expected volatility factor	24.90% - 26.43%	26.23%
Expected option term (in years)	6	7

Summary of key assumptions – The risk-free interest rate for periods equal to the expected term of the share option was based on the U.S. Treasury yield curve in effect at the time of grant. Dividend yield reflects the current dividend rate at the date of grant. The stock volatility for each grant is measured using the weighted average of historical monthly and daily price changes of the Common Shares over the most recent period equal to the expected option life of the grant. For the three and nine months ended September 30, 2006, the option term was determined using the simplified method for estimating expected option life, which qualify as “plain-vanilla” options and is derived from the average midpoint between vesting and the contractual term, as described in SEC’s SAB No. 107, “Share-Based Payment.” As permitted by SFAS No. 123(R), underlying assumptions used for stock options granted prior to January 1, 2005 were retained.

SFAS No. 123(R) requires entities to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. Prior to adoption, the Company accounted for forfeitures as they occurred as permitted under previous accounting standards. The cumulative effect of adopting the change in estimating forfeitures was not material to the Company’s financial statements for the nine months ended September 30, 2006.

Stock Options – A summary of stock option activity as of September 30, 2006, and changes during the nine months ended September 30, 2006, is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at January 1, 2006	684,304	\$ 24.31		
Granted	109,917	34.85		
Exercised	(190,976)	22.95		
Forfeited or expired	—	—		
Options outstanding at September 30, 2006	603,245	\$ 26.66	7.45	\$ 6,993,336
Options exercisable at September 30, 2006	345,296	\$ 25.15	6.66	\$ 4,523,945

The weighted-average grant-date fair value of options granted by Registrant during the nine months ended September 30, 2006 was \$8.34. There were no options granted during the three months ended September 30, 2006. The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between the closing price of the Common Shares on the last trading day of the third quarter of 2006 and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their option on September 30, 2006. This amount changes if the fair market value of the Common Shares changes. The total intrinsic value of options exercised during the three and nine months ended September 30, 2006 was approximately \$602,000 and \$2,803,000, respectively. During the three and nine months ended September 30, 2006, Registrant received approximately \$962,000 and \$4,383,000, respectively, in cash proceeds from the exercise of its stock options and realized approximately \$245,000 and \$1,142,000, respectively, of tax benefit for the tax deduction from awards exercised. As of September 30, 2006, approximately \$530,000 of total unrecognized compensation cost related to outstanding stock options is expected to be recognized over a remaining period of 2.34 years.

Restricted Stock and Stock Units – A summary of the status of Registrant’s outstanding restricted stock units to employees and directors as of September 30, 2006, and changes during the nine months ended September 30, 2006, is presented below:

	Number of Restricted Share Units	Weighted Average Grant-Date Value
Restricted share units at January 1, 2006	31,166	\$ 25.02
Granted	17,065	34.37
Vested	(602)	26.68
Forfeited	—	—
Restricted share units at September 30, 2006	47,629	\$ 28.34

As of September 30, 2006, there was approximately \$330,000 of total unrecognized compensation cost related to restricted stock units granted under Registrant’s employee and director’s stock plans. That cost is expected to be recognized over a remaining period of 2.34 years.

AWR has no restricted stock outstanding as of September 30, 2006.

Note 7 — Employee Benefit Plans:

The components of net periodic benefit costs, before allocation to the overhead pool, for Registrant’s pension plan, postretirement benefits plan, and Supplemental Executive Retirement Plan (“SERP”) for the three and nine months ended September 30, 2006 and 2005 are as follows:

	For The Three Months Ended September 30, 2006 and 2005					
	Pension Benefits		Other Postretirement Benefits		SERP	
	2006	2005	2006	2005	2006	2005
<i>(dollars in thousands)</i>						
Components of Net Periodic Benefits Cost:						
Service Cost	\$ 963	\$ 933	\$ 107	\$ 109	\$ 55	\$ 32
Interest Cost	1,170	1,088	155	151	36	28

Expected Return on Plan Assets	(990)	(922)	(50)	(74)	—	—
Amortization of Transition	—	—	105	105	—	—
Amortization of Prior Service Cost	41	41	(50)	(50)	39	38
Amortization of Actuarial Loss (Gain)	291	313	37	41	(5)	(10)
Net Periodic Pension Cost	<u>\$ 1,475</u>	<u>\$ 1,453</u>	<u>\$ 304</u>	<u>\$ 282</u>	<u>\$ 125</u>	<u>\$ 88</u>

For The Nine Months Ended September 30, 2006 and 2005

<i>(dollars in thousands)</i>	Pension Benefits		Other Postretirement Benefits		SERP	
	2006	2005	2006	2005	2006	2005
Components of Net Periodic Benefits Cost:						
Service Cost	\$ 2,889	\$ 2,799	\$ 321	\$ 327	\$ 165	\$ 96
Interest Cost	3,510	3,264	465	453	108	84
Expected Return on Plan Assets	(2,970)	(2,766)	(150)	(222)	—	—
Amortization of Transition	—	—	315	315	—	—
Amortization of Prior Service Cost	123	123	(150)	(150)	117	114
Amortization of Actuarial Loss (Gain)	873	939	111	123	(15)	(30)
Net Periodic Pension Cost	<u>\$ 4,425</u>	<u>\$ 4,359</u>	<u>\$ 912</u>	<u>\$ 846</u>	<u>\$ 375</u>	<u>\$ 264</u>

Registrant contributed approximately \$4,414,000 to the pension plan during the third quarter of 2006. Registrant expects to contribute approximately \$795,000 to the postretirement benefit plan by the end of 2006.

In August 2006, the Board of Directors approved an amendment to the SERP for executive officers of the Company. Under the SERP, the formula for calculating benefits was revised to provide that the benefit is calculated based on 2% of compensation per year of credited service before 2006 and 3% of compensation per year of credited service after 2005 up to a combined maximum of 60% of compensation, except that participants who were employed with the Company on January 1, 2006 are entitled to receive the greater of the benefit calculated under the new formula or the benefit calculated under the previous formula. The Board's approval of the new SERP formula is subject to the receipt of a confirming example, showing the effect of the change on an executive officer. The effect of this change on the 2006 net periodic benefit cost is not material.

Note 8 — Contingencies:

Water Quality-Related Litigation:

In 1997, GSWC was named as a defendant in nineteen lawsuits that alleged that GSWC and other water utilities delivered unsafe water to their customers in the San Gabriel Valley and Pomona Valley areas of Los Angeles County. Plaintiffs in these actions sought damages, including general, special, and punitive damages, as well as attorney's fees on certain causes of action, costs of suit, and other unspecified relief. On August 4, 2004, GSWC was dismissed from all nineteen Los Angeles County cases. The Court found GSWC did not violate established water quality standards and dismissed the cases after allowing reasonable time and opportunity for the plaintiffs to prove otherwise. GSWC has long asserted that it provides water within the standards established by the health authorities. On September 21, 2004, GSWC received notice that several plaintiffs filed an appeal to the trial court's order to dismiss GSWC. Briefs and reply briefs on the appeal have been filed. On February 7, 2006, the Second Appellate District in which the briefs were filed moved the California Supreme Court to transfer the appeal to the First Appellate District, the District in which prior appeals regarding these cases had been heard. GSWC is unable to predict the outcome of this appeal.

GSWC is subject to self-insured retention (deductible) provisions in its applicable insurance policies and has either expensed the self-insured amounts or has reserved against payment of these amounts as appropriate. GSWC'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 GSWC to establish a memorandum account to accumulate costs for future recovery.

Perchlorate and/or Volatile Organic Compounds ("VOC") have been detected in five wells servicing GSWC's San Gabriel System. GSWC filed suit in federal court, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority ("WQA"), against some of those allegedly responsible for the contamination. Some of the other potential defendants settled with GSWC, 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 potentially responsible party's motions.

A key ruling of the court was that the water purveyors, including GSWC, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA").

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

On August 29, 2003, the US Environmental Protection Agency ("EPA") issued Unilateral Administrative Orders ("UAO") against 41 parties deemed responsible for polluting the groundwater in that portion of the San Gabriel Valley from which two of GSWC's impacted wells draw water. GSWC 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 under the special master 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.

Registrant is unable to predict an estimate of the loss, if any, resulting from any of these litigations or administrative proceedings.

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

Although the City of Claremont, California located in GSWC's Region III, has not initiated the formal condemnation process pursuant to California law, the City has expressed various concerns to GSWC about the rates charged by GSWC and the effectiveness of the CPUC's rate setting procedures. The City hired a consultant to perform an appraisal of the value of Registrant's water system serving the City. The value was estimated in 2004 by the consultant at \$40 - \$45 million. GSWC disagrees with the City's valuation assessment. As of September 30, 2006, management believes that the fair market value of the system exceeds the \$37.0 million recorded net book value and also exceeds the consultant's estimates of the Claremont water system.

On April 12, 2005, the Town Council of the Town of Apple Valley located in GSWC's Region III, voted 5-0 to authorize Town staff to prepare a Request for Proposal for an evaluation of the feasibility and estimated cost of and a timeframe for the potential takeover of GSWC's Apple Valley water systems as well as the water systems of another utility serving the Town. On April 11, 2006 the Town Council unanimously decided to move forward with efforts to acquire all the water systems serving the Town, based on a study authorized by the Town Council. On July 25, 2006, the Town Council voted 4-0 to defer any further consideration of a takeover pending preparation by Town staff of financing options and costs to residents of any acquisition. No time frame was set for staff to report back to the Council. GSWC has not received any formal notice from the Town of its intention to condemn the Registrant's Apple Valley water systems. Management will vigorously represent Registrant's interests in any condemnation proceeding to ensure that the Company receives full value for assets that become subject to condemnation. As of September 30, 2006, management believes that the fair market value of GSWC's system exceeds the recorded net book value of the Apple Valley water systems.

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

Santa Maria Groundwater Basin Adjudication:

In 1997, the Santa Maria Valley Water Conservation District ("plaintiff") filed a lawsuit against multiple defendants, including GSWC, the City of Santa Maria, and several other public water purveyors. The plaintiff's lawsuit seeks an adjudication of the Santa Maria Groundwater Basin. A settlement of the lawsuit has been reached, subject to CPUC approval. The settlement, among other things, if approved, would preserve GSWC's historical pumping rights and secure supplemental water rights for use in case of drought or other reductions in the natural yield of the Basin. There are also a small number of nonsettling parties, and the case is going forward as to these parties. The stipulation, if approved, would preserve GSWC's position with the settling parties independent of the outcome of the case as it moves forward with the nonsettling parties. GSWC cannot predict the outcome of the case as to the nonsettling parties.

As of September 30, 2006, GSWC has incurred costs of approximately \$6.3 million in defending its rights in the Santa Maria Basin, including legal and expert witness fees, which have been recorded in Utility Plant for rate recovery. However, as stated earlier, the stipulation between the parties requires GSWC to go to the CPUC to seek recovery of these costs that have been incurred by GSWC in this lawsuit. In February 2006, GSWC filed with the CPUC for recovery of these costs. Management believes that the recovery of these costs through rates is probable.

Air Quality Management District:

In 1998, the South Coast Air Quality Management District ("AQMD") issued a permit to GSWC for the installation and use of air stripping equipment at one of GSWC's groundwater treatment systems in its Region II service area. In 2005, the AQMD conducted an inspection of this facility and issued a Notice of Violation ("NOV") for exceeding the amount of groundwater permitted to be treated by the treatment system during calendar year 2004. Since receiving the NOV, changes in GSWC procedures have prevented additional violations at the facility. The AQMD could assess penalties associated with an NOV that can range from \$10,000 up to \$75,000 per day of violation. GSWC estimates that it was in violation approximately 180 days in 2004. GSWC has met with AQMD to ensure future compliance and resolve the NOV. As part of this, GSWC also promptly submitted an application to amend the permit as an amendment may have been necessary for continued operation of the subject air stripping equipment.

The AQMD has recently recommended that GSWC be allowed to pursue a Supplemental Environmental Program ("SEP") as part of the settlement of the NOV. A SEP typically involves capital expenditures resulting in a change of process, equipment, material, or indirect source reduction for the purposes of eliminating or reducing air contaminant emissions. As part of going forward with its permit amendment application, GSWC would amend its current application to also include the addition of additional controls to the facility to reduce emissions. The penalties which GSWC has been informed might be assessed, could likely be reduced or avoided through the settlement of this matter based on the possible funding of a SEP. In October 2006, GSWC submitted initial capital cost estimates to the AQMD for the installation and operation of granular activated carbon filters at the facility as a proposed SEP which would eliminate the use of the air stripping equipment. Initial discussions indicate that AQMD staff has favorably received GSWC's proposal and if approved, it could result in the imposition of only a nominal monetary penalty. However, until further notice from the AQMD on the proposed SEP, GSWC cannot reasonably estimate the amount of penalties which might be assessed.

Other Litigation:

An officer of the Company has asserted a potential claim against the Company for retaliation against the officer and others in connection with alleged discriminatory conduct by the Company and its Board of Directors. Although management believes that the allegations are without merit and intends to vigorously defend against them, the Company retained an independent investigator to review the allegations and investigate the facts. Based upon the results of such investigation, the Company does not believe, but can give no assurance, that the ultimate resolution of this matter will have a material adverse effect on its financial position, results of operations, or cash flows.

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

Note 9 — Business Segments:

AWR has three reportable segments, water, electric and contracts operations, whereas GSWC has two, water and electric. Within the segments, AWR has three principal business units: water and electric service utility operations conducted through GSWC, a water-service utility operation conducted through CCWC, and a contracted services unit through ASUS and its subsidiaries. All activities of GSWC are geographically located within California. All activities of CCWC are located in the state of Arizona. All activities of ASUS are conducted in Arizona, California, Maryland, New Mexico, Texas and Virginia. Both GSWC 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 GSWC's operating segments, CCWC and other matters which includes ASUS and its subsidiaries. Certain assets, revenues and expenses have been allocated in the amounts set forth. The identifiable assets are net of respective accumulated provisions for depreciation. Capital additions reflect capital expenditures paid in cash and exclude property installed by developers and conveyed to GSWC or CCWC.

(dollars in thousands)	As of and for The Three Months Ended September 30, 2006					Consolidated AWR
	GSWC		CCWC	Other*		
	Water	Electric	Water			
Operating revenues	\$ 63,166(1)	\$ 6,444	\$ 2,120	\$ 2,011	\$ 73,741	
Operating income (loss)	17,780	(2,703)(2)	301	(342)	15,036	
Interest expense, net	3,975	407	113	159	4,654	
Identifiable assets	661,847	41,156	38,521	845	742,369	
Depreciation and amortization expense	5,717	454	420	43	6,634	
Capital additions	16,044	305	509	89	16,947	

(dollars in thousands)	As of and for The Three Months Ended September 30, 2005					Consolidated AWR
	GSWC		CCWC	Other*		
	Water	Electric	Water			
Operating revenues	\$ 58,589(1)	\$ 6,544	\$ 1,971	\$ 987	\$ 68,091	
Operating income (loss)	16,700	4,894(2)	322	(145)	21,771	
Interest expense, net	(1,587)	333	114	202	(938)	
Identifiable assets	620,844	39,680	37,028	678	698,230	
Depreciation and amortization expense	3,948	512	263	11	4,734	
Capital additions	15,031	288	805		16,124	

* Includes amounts from AWR and ASUS and its subsidiaries' contracted operations (including FBWS, ODUS and TUS for the three months ended September 30, 2006 and FBWS for the three months ended September 30, 2005.)

- (1) For the three months ended September 30, 2006, it includes \$325,000 of GSWC other operating revenues, \$311,000 of which reflects water rights lease revenues received from the City of Folsom (Note 2). For the three months ended September 30, 2005, it also includes \$21,000 of GSWC other operating revenues.
- (2) Includes \$2,807,000 and (\$4,018,000) unrealized loss (gain) on purchased power contracts for the three months ended September 30, 2006 and 2005, respectively.

(dollars in thousands)	As of and for The Nine Months Ended September 30, 2006					Consolidated AWR
	GSWC		CCWC	Other*		
	Water	Electric	Water			
Operating revenues	\$ 163,526(3)	\$ 21,816	\$ 5,951	\$ 5,193	\$ 196,486	
Operating income (loss)	46,380	(3,884)(4)	1,026	(325)	43,197	
Interest expense, net	11,339	996	377	682	13,394	
Identifiable assets	661,847	41,156	38,521	845	742,369	
Depreciation and amortization expense	16,806	1,530	1,258	132	19,726	
Capital additions	47,784	1,681	1,313	291	51,069	

(dollars in thousands)	As of and for The Nine Months Ended September 30, 2005					Consolidated AWR
	GSWC		CCWC	Eliminations		
	Water	Electric	Water	Other*		

Operating revenues	\$ 150,595(3)	\$ 20,105	\$ 5,068	\$ 2,704	\$ (35)	\$ 178,437
Operating income (loss)	39,439	9,234(4)	1,586	(1,628)		48,631
Interest expense, net	6,632	982	325	601		8,540
Identifiable assets	620,844	39,680	37,028	678		698,230
Depreciation and amortization expense	13,771	1,519	788	45		16,123
Capital additions	47,108	1,648	2,843	359		51,958

* Includes amounts from AWR and ASUS and its subsidiaries' contracted operations (including FBWS, ODUS and TUS for the nine months ended September 30, 2006 and FBWS for the nine months ended September 30, 2005.)

(3) For the nine months ended September 30, 2006, it also includes \$3,244,000 of GSWC other operating revenues, \$3,190,000 of which reflects water rights lease revenues received from the City of Folsom (Note 2). For the nine months ended September 30, 2005, it also includes \$76,000 of GSWC other operating revenues.

(4) Includes \$5,886,000 and (\$7,492,000) unrealized loss (gain) on purchased power contracts for the nine months ended September 30, 2006 and 2005, respectively.

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

General

American States Water Company ("AWR") is the parent company of Golden State Water Company ("GSWC"), Chaparral City Water Company ("CCWC") and American States Utility Services, Inc. ("ASUS") and its subsidiaries, Fort Bliss Water Services Company ("FBWS"), Terrapin Utility Services, Inc. ("TUS") and Old Dominion Utility Services, Inc. ("ODUS"). AWR was incorporated as a California corporation in 1998 as a holding company for its subsidiaries.

GSWC is a California public utility company engaged principally in the purchase, production and distribution of water. GSWC also distributes electricity in one customer service area. GSWC is regulated by the California Public Utilities Commission ("CPUC") and was incorporated as a California corporation on December 31, 1929. GSWC 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, Orange, San Bernardino and Imperial counties. GSWC 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.

GSWC served 254,063 water customers and 23,177 electric customers at September 30, 2006, or a total of 277,240 customers, compared with 275,706 total customers at September 30, 2005. GSWC's utility operations exhibit seasonal trends. Although GSWC's water utility operations have a diversified customer base, residential and commercial customers account for the majority of GSWC's water sales and revenues. Revenues derived from commercial and residential water customers accounted for approximately 89.6% of total water revenues for the three months ended September 30, 2006, as compared to 90.2% for the three months ended September 30, 2005. Revenues derived from commercial and residential water customers accounted for approximately 88.5% of total water revenues for the nine months ended September 30, 2006, as compared to 88.8% for the nine months ended September 30, 2005.

CCWC is an Arizona public utility company serving 13,294 customers as of September 30, 2006, compared with 12,959 customers at September 30, 2005. Located in the town of Fountain Hills, Arizona and a 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. 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. ASUS commenced operation and maintenance of the water and wastewater systems at Andrews Air Force Base in Maryland on February 1, 2006 through TUS pursuant to the terms of a 50 year contract. ASUS commenced operation and maintenance of the wastewater systems at Fort Lee in Virginia through ODUS on February 23, 2006 pursuant to the terms of a 50 year contract. ASUS also commenced operation of the water and wastewater systems at Fort Eustis, Fort Story and Fort Monroe in Virginia through ODUS on April 3, 2006 pursuant to the terms of a 50 year contract. These contracts are each subject to termination for convenience by the U.S. Government. The contract price for each of these contracts is subject to re-determination two years after commencement of operations and every three years thereafter to the extent provided in each of the contracts. Prices are also subject to equitable adjustment based upon changes in circumstances and changes in wages and fringe benefits to the extent provided in each of the contracts.

ASUS and GSWC have been pursuing an opportunity to provide retail water services within the service area of the Natomas Central Mutual Water Company ("Natomas"). Natomas is a California mutual water company which currently provides water service to its shareholders, primarily for agricultural irrigation in portions of Sacramento and Sutter counties in northern California. GSWC filed a Certificate of Public Convenience and Necessity application in May 2006, as mentioned below.

In August 2004, Natomas granted ASUS the exclusive right to market water that has become “temporarily surplus” that may arise under water rights permits and contracts owned or controlled by it, to third parties outside the Natomas service area. On January 31, 2006, ASUS entered into a water purchase agreement to acquire 5,000 acre-feet of permanent Sacramento River water diversion rights from Natomas. Pursuant to the terms of this agreement, Natomas will sell, transfer and convey to ASUS, in perpetuity, water rights and entitlements to divert from the Sacramento River up to 5,000 acre-feet of water per year, subject to certain regulatory approvals. Terms of the acquisition, among other things, include a base price of \$2,500 per acre-foot of water, with payments contingent on meeting specific milestones and events over a 10-year period. Natomas will pay to ASUS a commission of 16% of the sale price over the same 10-year period under an existing agreement between the two companies. At the same time that the water purchase agreement was completed, Natomas and ASUS also entered into a settlement agreement that released Natomas from previously established reimbursement obligations under existing agreements. ASUS may use this 5,000 acre-feet of water rights acquired from Natomas to engage in transactional opportunities with developers or water purveyors.

GSWC has also entered into a water transfer agreement with Natomas for 30,000 acre-feet of water to be used exclusively by GSWC to serve Sutter County, California. Additionally, GSWC filed for a Certificate of Public Convenience and Necessity with the CPUC on May 31, 2006 to provide retail water service in a portion of Sutter County, California. CPUC review of the application is pending, subject to completion of an environmental assessment. In addition, both agreements are subject to and become effective upon various regulatory approvals.

Overview

Registrant’s revenues, income, and cash flows are earned primarily through delivering potable water to homes and businesses. Rates charged to customers of GSWC and CCWC are determined by either the CPUC or ACC. These rates are intended to allow recovery of operating costs and a fair rate of return on capital. Factors recently affecting our financial performance include the process and timing of setting rates charged to customers; our ability to recover, and the process for recovering, the costs of water and electricity in rates; weather; the impact of increased water quality standards on the cost of operations and capital expenditures; pressures on water supply caused by population growth, more stringent water quality standards, deterioration in water quality and water supply from a variety of causes; capital expenditures needed to upgrade water systems and increased costs and risks associated with litigation relating to water quality and water supply, including suits initiated by Registrant to protect its water supply.

For the three months ended September 30, 2006, net income was \$5.6 million compared to \$12.2 million for the same period in 2005, a decrease of 54.4%. Basic and diluted earnings per share for the third quarter of 2006 were \$0.32 when compared to the \$0.72 for the third quarter of 2005. Two factors contributed to the significant decrease in net income: first there was the favorable CPUC decision on July 21, 2005 regarding the Aerojet matter which added about \$4.3 million to net income in July 2005 or approximately \$0.25 per share with no similar gain in 2006; and second, due to decreasing energy prices, the pretax unrealized loss on purchased power contracts of \$2.8 million decreased net income by \$0.10 per share during the third quarter of 2006 in contrast to a pretax unrealized gain of \$4.0 million which increased net income by \$0.14 per share for the same period of 2005. Offsetting these decreases were higher revenues due to increases in customer rates and consumption, partially offset by higher operating expenses.

For the nine months ended September 30, 2006, net income was \$17.7 million compared to \$21.7 million for the same period in 2005, a decrease of 18.4%. Basic and diluted earnings per share for the nine months ended September 30, 2006 were \$1.03, compared to \$1.29 for the same period of 2005. Similar to the quarterly results, the decrease in earnings per share was primarily due to decreasing energy prices which resulted in a pretax unrealized loss on purchased power contracts of \$5.9 million or a \$0.21 per share decrease to net income during the third quarter of 2006, in contrast to a pretax unrealized gain of \$7.5 million which increased net income by \$0.26 per share for the same period of 2005. In addition, there was the favorable CPUC decision on July 21, 2005 regarding the Aerojet matter which added about \$4.3 million to net income in July 2005 or approximately \$0.25 per share. Offsetting these 2006 decreases was another favorable decision issued by the CPUC in April 2006 regarding GSWC’s water rights lease revenues received from the City of Folsom, increased rates approved by the CPUC and ACC, and an increase in water consumption over the prior period, partially offset by higher operating expenses.

Registrant plans to continue to seek additional rate increases in future years to recover operating and supply costs and receive reasonable returns on invested capital. Capital expenditures in future years are expected to remain

at much higher levels than depreciation expense. Cash solely from operations is not expected to be sufficient to fund Registrant’s needs for capital expenditures, dividends, investments in the contract business and other cash needs. Registrant expects to fund these needs through a combination of debt and common share offerings in the next five years.

Unless specifically noted, the following discussion and analysis provides information on AWR’s consolidated operations and assets. For the three and nine months ended September 30, 2006 and 2005, there is generally no material difference between the consolidated operations and assets of AWR and the operations and assets of GSWC. However, where necessary, the following discussion and analysis includes references specifically to AWR’s other subsidiaries — CCWC and ASUS and its subsidiaries.

Consolidated Results of Operations — Three Months Ended September 30, 2006 and 2005 (dollars in thousand)

	3 MOS ENDED 9/30/2006	3 MOS ENDED 9/30/2005	\$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	\$ 64,962	\$ 60,539	\$ 4,423	7.3%
Electric	6,444	6,544	(100)	-1.5%
Other	2,335	1,008	1,327	131.6%
Total operating revenues	<u>73,741</u>	<u>68,091</u>	<u>5,650</u>	<u>8.3%</u>
OPERATING EXPENSES				
Water purchased	15,066	15,779	(713)	-4.5%
Power purchased for pumping	3,600	3,252	348	10.7%
Groundwater production assessment	2,477	2,315	162	7.0%
Power purchased for resale	2,659	3,075	(416)	-13.5%
Unrealized loss (gain) on purchased power contracts	2,807	(4,018)	6,825	-169.9%

Supply cost balancing accounts	244	514	(270)	-52.5%
Other operating expenses	6,677	4,850	1,827	37.7%
Administrative and general expenses	12,614	10,342	2,272	22.0%
Depreciation and amortization	6,634	4,734	1,900	40.1%
Maintenance	3,395	2,905	490	16.9%
Property and other taxes	2,656	2,572	84	3.3%
Net gain on sale of property	(124)	-	124	100.0%
Total operating expenses	58,705	46,320	12,385	26.7%
OPERATING INCOME	15,036	21,771	(6,735)	-30.9%
Interest expense	(5,349)	193	5,542	2871.5%
Interest income	695	745	(50)	-6.7%
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE	10,382	22,709	(12,327)	-54.3%
Income tax expense	4,809	10,475	(5,666)	-54.1%
NET INCOME	\$ 5,573	\$ 12,234	\$ (6,661)	-54.4%

Net income for the third quarter ended September 30, 2006 decreased by 54.4% to \$5.6 million, equivalent to \$0.32 per common share on both a basic and fully diluted basis, compared to \$12.2 million or \$0.72 per share for the three months ended September 30, 2005. Significantly impacting the comparability in the results of the two periods are the following two items:

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- A favorable decision issued by the CPUC on July 21, 2005 regarding the Aerojet memorandum account which added about \$4.3 million to net income in July 2005 or approximately \$0.25 per share. GSWC was authorized to collect the balance of the Aerojet litigation memorandum account of approximately \$21.3 million, through a rate surcharge, which will continue for no longer than 20 years. As a result of this decision, in July 2005 GSWC recorded an increase of approximately \$6.2 million to the Aerojet regulatory asset to include previously expensed carrying and other costs, and recorded a corresponding pre-tax gain. In addition, GSWC was ordered to restore to the appropriate plant accounts, those amounts that have been reimbursed by Aerojet pursuant to the settlement. This resulted in GSWC recording an approximate \$1.0 million decrease to depreciation expense during the third quarter of 2005. There were no similar entries during the third quarter of 2006. The following is a summary of the impact on the results of operations for the three months ended September 30, 2005 resulting from this decision:

<u>Operating Expenses</u>	<u>Amount</u> <u>Increase / (Decrease)</u>
Power purchased for resale	(\$31,230)
Other operating expenses	(459,415)
Administrative and general expenses	(16,963)
Depreciation and amortization	(992,232)
Total pre-tax impact to operating expenses	(1,499,840)
 <u>Interest</u>	
Interest expense	(5,084,551)
Interest income	(607,083)
Total net interest charges	(5,691,634)
Total pre-tax impact to results of operations	\$ 7,191,474
Impact to taxes on income	2,930,238
Total impact to net income	\$ 4,261,236
Impact to Basic Earnings per Share	\$ 0.25
Impact to Diluted Earnings per Share	\$ 0.25

- There was a pretax unrealized loss on purchased power contracts in 2006 due to decreasing energy prices versus a pretax unrealized gain on purchased power contracts in 2005. The cumulative unrealized loss on purchased power contracts decreased pretax income by approximately \$2.8 million, or \$0.10 per share, for the three months ended September 30, 2006, as compared to a cumulative unrealized gain on purchased power contracts that increased pretax income by \$4.0 million, or \$0.14 per share, for the same period in 2005.

Eliminating the effects of the two items discussed above, basic and diluted earnings per share for the third quarter of 2006 would have actually increased by \$0.09 per share as compared to the same period last year, resulting primarily from higher water revenues due to increased customer rates and consumption due to warmer weather conditions, offset partially by higher operating expenses, as further discussed below.

Operating Revenues

For the three months ended September 30, 2006, revenues from water operations increased by 7.3% to \$65.0 million, compared to \$60.5 million for the three months ended September 30, 2005. An increase of 1.5% in billed water consumption resulting from changes in weather conditions increased revenues by approximately \$524,000. In addition, higher water revenues reflecting rate increases since the third quarter of 2005 covering almost all water customers contributed \$3.6 million in increased revenues for the third quarter of 2006. 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 September 30, 2006, revenues from electric operations decreased by 1.5% to \$6.4 million compared to \$6.5 million for the three months ended September 30, 2005. The decrease primarily

reflects lower new connection, reconnection and miscellaneous fees charged to customers during the three months ended September 30, 2006 as compared to same period in 2005. This decrease was partially offset by a slight increase in kilowatt-hour (“KWh”) usage, due to changes in weather conditions. During the third quarter of 2006, the Big Bear area experienced a heat wave. Temperatures ran above normal and residential customers used more power for fans and central air, as well as the commercial customers which required more power for air cooling and freezers compared to the third quarter of 2005

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

For the three months ended September 30, 2006, other operating revenues increased by 131.6% to \$2.3 million compared to \$1.0 million for the three months ended September 30, 2005 due primarily to \$954,000 of additional revenues generated by ASUS from operating the water and wastewater systems pursuant to new contracts at military bases. In addition, revenues increased due to a decision issued by the CPUC on April 13, 2006 enabling GSWC to record water rights lease revenues from the City of Folsom subsequent to January 2004, as income. Prior to this decision, the apportionment of any lease revenues that GSWC collected in 2004 and 2005 had been included in a regulatory liability account and no amounts were recognized as revenues until uncertainties about this matter were resolved. For the third quarter 2006, Registrant recorded additional water lease revenues of \$311,000.

Operating Expenses

For the three months ended September 30, 2006, purchased water costs decreased by 4.5% to \$15.1 million compared to \$15.8 million for the three months ended September 30, 2005. The decrease is due primarily to a favorable change in the supply mix caused by less purchased water needed to replace contaminated groundwater supply or wells temporarily out of service in 2005. For the three months ended September 30, 2006, 46.3% of Registrant’s supply mix was purchased water as compared to 49.8% purchased water for the three months ended September 30, 2005. During the same period last year, there were additional purchases of water needed to replace contaminated groundwater supply lost due to wells being removed from service resulting from water quality issues and mechanical problems, particularly in GSWC’s Foothill district. The cost of purchased water in this district decreased by approximately \$616,000 for the three months ended September 30, 2006 when compared to the three months ended September 30, 2005 as a result of certain wells being returned to operation in 2006.

For the three months ended September 30, 2006, the cost of power purchased for pumping increased by 10.7% to \$3.6 million compared to \$3.3 million for the three months ended September 30, 2005 due to an increase in KWh usage by Registrant caused by higher pumping volume due to the favorable supply mix change discussed above.

For the three months ended September 30, 2006, groundwater production assessments increased by 7.0% to \$2.5 million as compared to \$2.3 million for the three months ended September 30, 2005 due to increases in well production resulting from the supply mix change and increased consumption. There were also increases in assessment rates levied against groundwater production, effective July 2006. Average pump tax rates increased in GSWC’s Regions II and III by approximately 2% and 4%, respectively.

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, without additional regulatory mechanisms, it is not possible to wholly protect earnings from adverse changes in supply costs related to unforeseen contamination or other loss of water supply.

For the three months ended September 30, 2006, cost of power purchased for resale to customers in GSWC’s Bear Valley Electric division decreased by 13.5% to \$2.7 million compared to \$3.1 million for the three months ended September 30, 2005, reflecting lower costs of energy in the third quarter of 2006 as compared to the same period of 2005 in the spot market. The third quarter of 2005 was characterized by high energy costs due to the effects of hurricanes and uncertainty in the energy markets. The same period in 2006, with no significant hurricane activity, saw spot market costs decline from 2005 levels. This decrease to the cost of power purchased for resale was offset partially by higher customer demand during the third quarter of 2006.

Unrealized loss (gain) on purchased power contracts represents losses and gains recorded for GSWC’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 \$2.8 million pretax unrealized loss on purchased power contracts for the three months ended September 30, 2006 is due to a decrease in the current forward market prices since June 30, 2006. There was a \$4.0 million pretax unrealized gain on purchased power contracts for the three months ended September 30, 2005. 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.

A decrease of \$270,000 during the three months ended September 30, 2006 in the provision for supply cost balancing accounts as compared to the three months ended September 30, 2005 was primarily due to the recording in 2006 of a \$1.4 million under-collection related to the 2006 year-to-date supply cost memorandum account resulting from the elimination of the earnings test. This change was authorized by the CPUC in April 2006. This decrease was offset by: (i) an increase of \$654,000 in the third quarter of 2006 related to the amortization of the water supply cost balancing accounts approved by the CPUC in August and September of 2005, and (ii) a net increase of \$504,000 in the electric supply cost balancing account resulting from the lower offset cost of power.

For the three months ended September 30, 2006, other operating expenses increased by 37.7% to \$6.7 million compared to \$4.9 million for the three months ended September 30, 2005 due primarily to: (i) higher operating expenses of \$519,000 at ODUS and TUS due to the commencement of the operations

of the water and wastewater systems pursuant to new military contracts in Maryland and Virginia in early 2006; (ii) a \$459,000 downward adjustment in July of 2005 reflecting the approval from the CPUC of previously incurred operating expenses in the Aerojet matter, previously discussed; (iii) higher chemicals and water treatment costs of \$266,000 at GSWC; (iv) higher labor costs as a result of higher wages which increased by approximately \$164,000 at GSWC; (v) an increase of \$226,000 in bad debt expense at GSWC relating to miscellaneous accounts receivable balances, and (vi) a net increase of \$193,000 in various other miscellaneous operating expenses.

For the three months ended September 30, 2006, administrative and general expenses increased by 22.0% to \$12.6 million compared to \$10.3 million for the three months ended September 30, 2005 due to: (i) administrative and general expenses of \$446,000 at ODUS and TUS due to the commencement of the operations of the water and wastewater systems pursuant to new military contracts in Maryland and Virginia; (ii) an increase of approximately \$683,000 in various employee benefit costs including stock-based compensation expense of \$102,000 due to the adoption of SFAS No. 123(R) effective January 1, 2006; (iii) an increase of \$994,000 in outside services relating primarily to tax and legal services at GSWC, and (iv) higher labor costs as a result of higher wages which increased by approximately \$118,000 at GSWC.

For the three months ended September 30, 2006, depreciation and amortization expense increased by 40.1% to \$6.6 million compared to \$4.7 million for the three months ended September 30, 2005 reflecting, among other things, the effects of closing approximately \$100 million of additions to utility plant during 2005, depreciation on which began in January 2006. In addition, there was a decrease in depreciation expense in 2005 resulting from the favorable CPUC decision on the Aerojet matter, discussed previously, which ordered GSWC in July of 2005 to restore approximately \$1.0 million to the appropriate plant accounts and decrease depreciation expense. There was no such adjustment in 2006. 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 September 30, 2006, maintenance expense increased by 16.9% to \$3.4 million compared to \$2.9 million for the three months ended September 30, 2005 due principally to an increase in required maintenance on GSWC's wells and water supply sources. There were also increases in well treatment and emergency repair costs. Furthermore, there was an increase of \$61,000 at ODUS and TUS due to the commencement of the operations of the water and wastewater systems pursuant to new military contracts in Maryland and Virginia.

For the three months ended September 30, 2006, property and other taxes increased by 3.3% to \$2.7 million compared to \$2.6 million for the three months ended September 30, 2005 reflecting additional property taxes resulting from higher assessed values, and increases in payroll taxes based on increased labor costs.

For the three months ended September 30, 2005, Registrant recorded a net pre-tax gain of \$124,000 on the sale of non-utility property. There was no similar gain in the same period of 2005.

Interest Expense

For the three months ended September 30, 2006, interest expense increased by \$5.5 million during the three months ended September 30, 2006 as compared to the same period in 2005 reflecting primarily the approval from the CPUC in July of 2005 for the recovery of previously incurred and expensed interest costs totaling \$5.1 million in the Aerojet memorandum account, discussed previously. In addition, the increase also reflects increases in long-term debt interest expense of \$585,000 due to \$40.0 million of additional private placement notes issued at GSWC in October 2005. Partially offsetting this increase was a decrease in short-term cash borrowings. Average bank loan balances outstanding under an AWR credit facility for the third quarter of 2006 were approximately \$26.5 million, as compared to an average of \$50.8 million during the same period of 2005. However, the decrease in short-term bank loan balances was also partially offset by higher interest rates.

Interest Income

Interest income decreased by 6.7% during the three months ended September 30, 2006 as compared to the same period in 2005 reflecting primarily the decision from the CPUC in 2005 on the Aerojet matter, which resulted in the recognition of interest income totaling approximately \$607,000 earned on the \$8.0 million Aerojet long-term note receivable. The recording of the interest income had been deferred pending this final CPUC decision. This decrease was offset by increases due primarily to: (i) interest accrued on the uncollected balance of the Aerojet litigation memorandum account authorized by the CPUC of \$279,000; (ii) interest income totaling \$173,000 earned from the U.S. Government for costs incurred on capital upgrade projects at Andrews Air Force Base, and (iii) interest earned on short-term cash surplus.

Income Tax Expense

For the three months ended September 30, 2006, income tax expense decreased by 54.1% to \$4.8 million compared to \$10.5 million for the three months ended September 30, 2005 due primarily to a decrease in pretax income of 54.3%. The effective tax rate ("ETR") for the three months ended September 30, 2006 increased slightly to 46.3% as compared to a 46.1% ETR applicable to the three months ended September 30, 2005. The variance between the ETR and the statutory tax rate is primarily the result of differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting increase or decrease occurring in another period. During the second quarter of 2005, the recognition of the federal effect of state taxes was adjusted to conform to the flow-through method reflected in the tax calculation for ratemaking purposes, which partially defers the recognition of the effect to the subsequent tax year. This increased income tax expense by \$33,000 for the three months ended September 30, 2006.

Consolidated Results of Operations — Nine Months Ended September 30, 2006 and 2005 (dollars in thousand)

	9 MOS ENDED 9/30/2006	9 MOS ENDED 9/30/2005	\$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	\$ 166,233	\$ 155,611	\$ 10,622	6.8%
Electric	21,816	20,105	1,711	8.5%
Other	8,437	2,721	5,716	210.1%
Total operating revenues	<u>196,486</u>	<u>178,437</u>	<u>18,049</u>	<u>10.1%</u>
OPERATING EXPENSES				
Water purchased	34,326	35,742	(1,416)	-4.0%
Power purchased for pumping	7,620	6,923	697	10.1%
Groundwater production assessment	6,799	6,079	720	11.8%
Power purchased for resale	10,470	9,922	548	5.5%
Unrealized loss (gain) on purchased power contracts	5,886	(7,492)	13,378	-178.6%
Supply cost balancing accounts	(93)	1,042	(1,135)	-108.9%
Other operating expenses	17,264	15,138	2,126	14.0%
Administrative and general expenses	34,628	32,456	2,172	6.7%
Depreciation and amortization	19,726	16,123	3,603	22.3%
Maintenance	9,113	7,522	1,591	21.2%
Property and other taxes	7,674	7,111	563	7.9%
Net gain on sale of property	(124)	-	124	100.0%
Gain on settlement for removal of wells	-	(760)	(760)	-100.0%
Total operating expenses	<u>153,289</u>	<u>129,806</u>	<u>23,483</u>	<u>18.1%</u>
OPERATING INCOME	43,197	48,631	(5,434)	-11.2%
Interest expense	(16,037)	(9,341)	6,696	71.7%
Interest income	2,643	801	1,842	230.0%
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE	29,803	40,091	(10,288)	-25.7%
Income tax expense	12,061	18,358	(6,297)	-34.3%
NET INCOME	\$ 17,742	\$ 21,733	\$ (3,991)	-18.4%

Net income decreased by 18.4% for the nine months ended September 30, 2006, to \$17.7 million, which is equivalent to \$1.03 per common share on both a basic and fully diluted basis, compared to \$21.7 million or \$1.29 per share on a basic and fully diluted basis, respectively, for the nine months ended September 30, 2005. Impacting the comparability in the results of the two periods are the following significant items:

- There was an unrealized loss on purchased power contracts in 2006 due to decreasing energy prices versus an unrealized gain on purchased power contracts in 2005. The cumulative unrealized loss on purchased power contracts decreased pretax income by approximately \$5.9 million, or \$0.21 per share, for the nine months ended September 30, 2006, as compared to a cumulative unrealized gain on purchased power contracts that increased pretax income by \$7.5 million, or \$0.26 per share increase to income, for the same period in 2005.
- As discussed in the quarterly results, the 2005 nine months recorded results reflects a favorable decision issued by the CPUC on July 21, 2005 regarding the Aerojet matter which added about \$4.3

million to net income in July of 2005 or approximately \$0.25 per share. The impact to pretax income resulted in reduced interest charges, depreciation expense and other operating expenses as discussed below.

- A decision issued by the CPUC on April 13, 2006 regarding the treatment of GSWC's water rights lease revenues added about \$3.2 million to pretax income for the nine months ended September 30, 2006 or approximately \$0.11 per share. In this decision, the CPUC authorized GSWC to reinvest all lease revenues since January 2004, inclusive of the balances in the regulatory liability accounts established by GSWC for this matter, in water system infrastructure. These investments will be included in the rate base upon which GSWC earns a rate of return. In accordance with California law, GSWC will have 8 years in which to reinvest the proceeds. As a result, GSWC transferred about \$2.3 million of water rights lease revenues received from the City of Folsom in 2004 and 2005 from the regulatory liability account into other operating revenues. GSWC also recorded pretax income of \$909,000 reflecting water rights lease revenues for the first, second and third quarters of 2006.
- Water rate increases contributed approximately \$8.8 million to revenues, or \$0.31 per share for the nine months ended September 30, 2006. This was partially offset by higher expenses as described below.
- An increase in ASUS's pretax operating income of \$1.4 million, or \$0.05 per share, as compared to the same period of 2005 by operating and maintaining the water and wastewater systems for the U.S. Government. The increases included revenue recognized for certain special projects and reimbursement of various operating costs incurred during the period of transition of the operation and maintenance of the water and wastewater systems at military bases in Maryland and Virginia formerly owned and operated by the U.S. Government.
- A \$2.4 million increase in other interest income, excluding the impact of the Aerojet decision in July 2005 mentioned above, or \$0.09 per share, resulting primarily from interest accrued on the uncollected balance of the Aerojet litigation memorandum account authorized by the CPUC, interest income related to a \$3.0 million Internal Revenue Service refund received in May 2006, and interest income from the U.S. Government for costs incurred on capital upgrade projects at Andrews Air Force Base

- A lower effective tax rate increased earnings by \$0.09 per share resulting primarily from: (i) a \$400,000 tax benefit relating to a \$3.0 million IRS refund received in May 2006; and (ii) differences between book and taxable income, which are treated as flow-through adjustments in accordance with regulatory requirements.
- Higher operating expenses, other than those described above, which lowered 2006 net income by an additional \$0.19 per share, as more fully described below.

Operating Revenues

For the nine months ended September 30, 2006, revenues from water operations increased by 6.8% to \$166.2 million, compared to \$155.6 million for the nine months ended September 30, 2005. Higher water revenues reflect rate increases since the second quarter of 2005 covering almost all water customers, which contributed \$8.8 million in increased revenues. In addition, an increase of about 2.0% in billed water consumption resulting from changes in weather conditions also increased revenues by approximately \$1.8 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 nine months ended September 30, 2006, revenues from electric operations increased by 8.5% to \$21.8 million compared to \$20.1 million for the nine months ended September 30, 2005. The increase reflects primarily a 7.4% increase in KWh usage, due to changes in weather conditions which caused the usage of snow-making machines to increase in 2006. The cooler 2006 winter weather as compared to same period last year allowed the ski resorts (industrial customers) to remain open well into May, operating their lifts and some snow-making in the evening hours. New rates authorized by the CPUC for the 8.4 megawatt ("MW") natural gas-fueled generation facility also contributed to the increase. The new rates went into effect on April 15, 2005 and generate approximately \$2.7 million in additional annual revenues, subject to refund pending the CPUC's final cost review.

The new Bear Valley Electric rates have been recognized in 2006 revenues and management believes it is probable that the final CPUC cost review will not result in refunds to the customer.

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

For the nine months ended September 30, 2006, other operating revenues increased by 210.1% to \$8.4 million compared to \$2.7 million for the nine months ended September 30, 2005 due primarily to a decision issued by the CPUC on April 13, 2006 enabling GSWC to record \$3.2 million of water rights lease revenues from the City of Folsom from January 2004 to September 2006. Prior to this decision, the apportionment of any lease revenues that GSWC collected in 2004 and 2005, totaling \$2.3 million, had been included in a regulatory liability account and no amounts were recognized as revenues until regulatory uncertainties about this matter were resolved. Registrant also recorded additional revenue of \$909,000, reflecting the first, second and third quarters of the 2006 water rights lease revenues. In addition, an increase of \$2.8 million in revenues as compared to the first nine months of 2005 reflects: (i) the recording of FBWS revenue of approximately \$768,000 during the nine months ended September 30, 2006 based on the percentage of completion method of accounting for contract revenue recognition for several projects at Fort Bliss; and (ii) additional revenues totaling \$2.0 million generated from operating the water and wastewater systems at Andrews Air Force Base which began operation on February 1, 2005, at Fort Eustis, Fort Monroe and Fort Story all of which began operation on April 3, 2006, and the wastewater systems at Fort Lee which began operation on February 23, 2006.

Operating Expenses

For the nine months ended September 30, 2006, purchased water costs decreased by 4.0% to \$34.3 million compared to \$35.7 million for the nine months ended September 30, 2005. The decrease is due primarily to a change in the supply mix caused by less purchased water needed to replace groundwater supply lost in 2005. For the nine months ended September 30, 2006, 44.8% of Registrant's supply mix was purchased water as compared to 47.2% purchased water for the nine months ended September 30, 2005. During the same period last year, there were additional purchases of water needed to replace groundwater supply, due to wells being removed from service. The wells were removed from service in 2005 as a result of water quality issues and mechanical problems, particularly in GSWC's Foothill district. The cost of purchased water in this district decreased by approximately \$1.7 million as a result of the wells being returned to operation in 2006. This decrease was partially offset by an increase in customer demand resulting from higher consumption and increased water rates by purchased water suppliers.

For the nine months ended September 30, 2006, the cost of power purchased for pumping increased by 10.1% to \$7.6 million compared to \$6.9 million for the nine months ended September 30, 2005 due to an increase in KWh usage by Registrant caused by higher customer water demand and an increase in pumping volume due to the supply mix change discussed above.

For the nine months ended September 30, 2006, groundwater production assessments increased by 11.8% to \$6.8 million as compared to \$6.1 million for the nine months ended September 30, 2005 due to increases in well production to meet higher customer demand. There were also increases in assessment rates levied against groundwater production, effective July 2005 and 2006. Average pump tax rates increased in Regions II and III in July 2006 by approximately 2% and 4%, respectively, and 5% and 20% in July 2005, respectively.

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.

For the nine months ended September 30, 2006, cost of power purchased for resale to customers in GSWC's Bear Valley Electric division increased by 5.5% to \$10.5 million compared to \$9.9 million for the nine months ended September 30, 2005, primarily reflecting higher customer demand during the nine months ended September 30, 2006.

Unrealized loss (gain) on purchased power contracts represents losses and gains recorded for GSWC's purchased power agreements with PWCC, which qualify as derivative instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The \$5.9 million pretax unrealized loss on purchased power contracts for the nine months ended September 30, 2006 is due to a decrease in the current forward

market prices since December 31, 2005. There was a \$7.5 million pretax unrealized gain on purchased power contracts for the nine months ended September 30, 2005. 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.

A decrease of \$1.1 million during the nine months ended September 30, 2006 in the provision for supply cost balancing accounts as compared to the nine months ended September 30, 2005 was primarily due to: (i) the recording of a \$247,000 refund received in May 2005 from Mirant with no corresponding amount booked in the same period of 2006; (ii) the recording of a \$2.7 million under-collection in the second and third quarter of 2006 related to the 2006 year-to-date supply cost memorandum account resulting from the elimination of the earnings test by the CPUC in April 2006, and (iii) the recording in April 2006 of an additional \$181,000 under-collection for 2005's supply cost memorandum account due to the elimination by the CPUC of the earnings test. These decreases were offset by: (i) the approval by the CPUC and recording in September 2005 of \$1.3 million under-collection related to Region III's 2004 supply cost memorandum account, and (ii) an increase of \$884,000 in the amortization of water supply cost balancing accounts approved by the CPUC in June, August and September of 2005.

For the nine months ended September 30, 2006, other operating expenses increased by 14.0% to \$17.3 million compared to \$15.1 million for the nine months ended September 30, 2005 due primarily to higher operating expenses of \$1.2 million at ODUS and TUS due to the commencement of operation of the water and wastewater systems at military bases in Maryland and Virginia. There was also a net increase of \$1.3 million at GSWC primarily due to: (i) a \$459,000 downward adjustment in July of 2005 reflecting the approval from the CPUC of previously incurred operating expenses in the Aerojet matter, previously discussed; (ii) higher chemicals and water treatment costs of \$386,000 at GSWC; (iii) approximately \$292,000 of higher labor costs as a result of higher wages at GSWC, and (iv) an increase of \$248,000 in bad debt expense at GSWC relating to miscellaneous accounts receivable balances. These increases were partially offset by the increase in reimbursement of \$560,000 from the U.S. Government and a contractor, for operating expenses incurred at Fort Bliss. FBWS was separately hired by the U.S. Government as a subcontractor for certain related projects at the same base.

For the nine months ended September 30, 2006, administrative and general expenses increased by 6.7% to \$34.6 million compared to \$32.5 million for the nine months ended September 30, 2005 caused primarily by higher administrative and general expenses of \$804,000 at ODUS and TUS due to the commencement of operation of the water and wastewater systems at military bases in Maryland and Virginia in early 2006. This increase at ODUS and TUS is net of the recovery of transition period operating expenses of about \$672,000 at these military bases. Other changes at ASUS include decreases due to: (i) an increase of \$284,000 in reimbursements by the U.S. Government of indirect costs incurred by FBWS, and (ii) lower outside services and other expenses at ASUS totaling \$380,000. General and administrative expenses also increased by \$2.0 million at GSWC primarily due to increases in: (i) pensions and benefits of \$170,000 caused by actuarial assumption changes in the mortality tables, and increases of approximately \$378,000 in various other benefit costs due primarily to increases in medical and labor costs; (ii) stock-based compensation expense of \$402,000 due to the adoption of SFAS No. 123(R) effective January 1, 2006; (iii) labor cost increases of \$762,000 due to higher wages, and (iv) various other office, supplies and rent expenses of \$314,000.

For the nine months ended September 30, 2006, depreciation and amortization expense increased by 22.3% to \$19.7 million compared to \$16.1 million for the nine months ended September 30, 2005 reflecting, among other things, the effects of closing approximately \$100 million of additions to utility plant during 2005, depreciation on which began in January 2006. In addition, there was a decrease in depreciation expense in 2005 resulting from the favorable CPUC decision on the Aerojet matter, discussed previously, which ordered GSWC to restore approximately \$1 million to the appropriate plant accounts and decrease depreciation expense in July of 2005. There was no such adjustment in 2006. 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 nine months ended September 30, 2006, maintenance expense increased by 21.2% to \$9.1 million compared to \$7.5 million for the nine months ended September 30, 2005 due principally to an increase in required maintenance on GSWC's wells and water supply sources at all Regions. There were also increases in well treatment and emergency repair costs. Furthermore, there was an increase of: (i) \$451,000 at GSWC's electric division due to the new 8.4 MW natural gas-fueled generation facility, and (ii) \$175,000 at ODUS and TUS due to the commencement of the operations of the water and wastewater systems pursuant to new military contracts in Maryland and Virginia.

For the nine months ended September 30, 2006, property and other taxes increased by 7.9% to \$7.7 million compared to \$7.1 million for the nine months ended September 30, 2005 reflecting additional property taxes resulting from higher assessed values, and increases in payroll taxes based on increased labor costs.

For the nine months ended September 30, 2005, Registrant recorded a net pretax gain of \$124,000 on the sale of non-utility property. There was no similar gain in the same period of 2005.

For the nine months ended September 30, 2005, Registrant also 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 capping 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. There was no similar gain in the same period of 2006.

Interest Expense

For the nine months ended September 30, 2006, interest expense increased \$6.7 million during the nine months ended September 30, 2006 as compared to the same period in 2005 reflecting primarily the approval from the CPUC in 2005 for the recovery of previously incurred and expensed interest costs totaling \$5.1 million in the Aerojet memorandum account, discussed previously. In addition, the increase also reflects increases in long-term debt interest expense of \$1.8 million primarily due to the placement of \$40.0 million of notes in October 2005 coupled with increases in short-term bank loan interest

rates. Partially offsetting this increase was a decrease in short-term cash borrowings. Average bank loan balances outstanding under an AWR credit facility for the nine months ended September 30, 2006 were approximately \$28.2 million, as compared to an average of \$48.6 million during the same period of 2005.

Interest Income

For the nine months ended September 30, 2006, interest income increased by 230% to \$2.6 million compared to \$801,000 for the nine months ended September 30, 2005 due primarily to: (i) interest accrued on the uncollected balance of the Aerojet litigation memorandum account authorized by the CPUC of \$1.1 million; (ii) interest income of \$381,000 related to a \$3.0 million Internal Revenue Service refund received in May 2006; (iii) interest income totaling \$345,000 earned from the U.S. Government for costs incurred on capital upgrade projects at Andrews Air Force Base, and (iv) interest earned on short-term cash surplus. These increases were partially offset by the recognition in July 2005 of approximately \$607,000 in interest income earned on the \$8.0 million Aerojet long-term note receivable. The recording of the interest income had been deferred pending the final CPUC decision on the Aerojet matter. Registrant has since been recording the interest income on the \$8.0 million Aerojet long-term note receivable on a monthly basis.

Income Tax Expense

For the nine months ended September 30, 2006, income tax expense decreased by 34.3% to \$12.1 million compared to \$18.4 million for the nine months ended September 30, 2005 due, in part, to a decrease in pretax income of 25.7%. In addition, the decrease was as a result of flow-through adjustments and a refund claim, as discussed further, below. The ETR for the nine months ended September 30, 2006 decreased by approximately 5.3 percentage points to 40.5% as compared to a 45.8% ETR applicable to the nine months ended September 30, 2005. The variance between the ETR and the statutory tax rate is primarily the result of differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting increase or decrease occurring in another period. During the second quarter of 2005, the recognition of the federal effect of state taxes was adjusted to conform to the flow-through method reflected in the tax calculation for ratemaking purposes, which partially defers the recognition of the effect to the subsequent tax year. This reduced income tax expense by \$171,000 for the nine months ended September 30, 2006. During the third quarter of 2005, AWR filed an amended tax return for 2001 with the Internal Revenue Service ("IRS") which was subject to IRS and Congressional Joint Committee of Taxation ("JCT") review. During the second quarter of 2006, the IRS and JCT reviews were completed and AWR received a refund in the amount of its original claim of \$3.0 million, with interest. Consequently, in the second quarter of 2006, AWR recorded a tax benefit of \$400,000, of which \$351,000 was attributable to GSWC. The refund-claim benefit contributed to 1.3 of the 5.3 percentage point ETR reduction referred to, above.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates 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, and 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 Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2005. Except for the adoption of SFAS No. 123(R), "Share-Based Payment", there have been no material changes to the critical accounting policies. Effective January 1, 2006, Registrant began accounting for employee and directors stock-based compensation costs in accordance with SFAS No. 123(R) which requires the recognition of compensation expense in the financial statements based on fair values of the stock awards. Registrant elected to adopt the modified prospective transition method as provided by SFAS No. 123(R) and, accordingly, financial statement amounts for the prior periods presented in the Form 10-Q have not been restated to reflect the fair value method of expensing share-based compensation. Registrant utilized the Black-Scholes option pricing model to estimate the fair value of employee stock based compensation at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected life. Further, as required under SFAS No. 123(R), Registrant now estimates forfeitures for options granted, which are not expected to vest. The cumulative effect of adopting the change in estimating forfeitures is not material to Registrant's financial statements for the nine months ended September 30, 2006. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of Registrants share-based compensation. The adoption of SFAS No. 123(R) did not have a material effect on Registrant's consolidated financial position, results of operations and cash flows for the three and nine months ended September 30, 2006.

Liquidity and Capital Resources

AWR

AWR funds its operating expenses and pays dividends on its outstanding Common Shares primarily through dividends from GSWC.

Net cash provided by operating activities was \$45.6 million for the nine months ended September 30, 2006 as compared to \$45.2 million for the same period ended September 30, 2005. The slight increase of \$0.4 million was primarily attributable to higher net income after adjustments for non-cash items, which increased cash flows from operating activities by \$7.5 million. This increase was offset by the timing of cash receipts and disbursements related to working capital items, in particular the decrease in cash flows from operating activities of \$5.1 million in income taxes receivable/payable resulting from the receipt of a \$3.0 million federal tax refund received in May 2006 as compared to a \$5.0 million federal tax refund in April 2005 as well as differences in the timing of remitting taxes which resulted in additional taxes paid during the nine months ended September 30, 2006 as compared to same period in 2005.

Net cash used in investing activities decreased slightly to \$51.1 million for the nine months ended September 30, 2006 as compared to \$52.0 million for the same period ended September 30, 2005.

Net cash used in financing activities was \$1.0 million for the nine months ended September 30, 2006 as compared to net cash provided by financing activities of \$8.2 million for the same period in 2005. The decrease in net cash provided by financing activities was primarily caused by a decrease of about \$3.6 million in advances for and contributions in aid of construction and a \$12.0 million net decrease in notes payable to banks. These decreases were offset by a \$5.2 million increase in proceeds from stock option exercises and the issuance of Common Shares under the Registrant's Common Share Purchase and Dividend Reinvestment Plan and 401(k) Plan. Cash flows from financing activities also increased by \$1.1 million from the tax benefits associated with the exercise of stock options.

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Registrant has paid common dividends for 75 consecutive years. On October 27, 2006, AWR declared a regular quarterly dividend of \$0.235 per Common Share. The dividend, totaling approximately \$4.0 million, will be paid on December 1, 2006 to common shareholders of record at the close of business on November 10, 2006. During the nine months ended September 30, 2006 and 2005, AWR paid quarterly dividends to shareholders, totaling approximately \$11.4 million or \$0.675 per share and \$11.3 million or \$0.675 per share, respectively. AWR's ability to pay cash dividends on its Common Shares outstanding depends primarily upon cash flows from GSWC. AWR presently intends to continue paying quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to earnings and financial condition, regulatory requirements and such other factors as the Board of Directors may deem relevant.

In June 2005, AWR amended and restated its credit agreement which increased its borrowing limit under this facility to \$85 million and extended the maturity date to June 2010. Up to \$20 million of this facility may be used for letters of credit. As of September 30, 2006, an aggregate of \$25.0 million in cash borrowings were included in current liabilities and approximately \$11.2 million of letters of credit were outstanding under this facility. In August 2006, AWR filed a Registration Statement with the Securities and Exchange Commission for the sale from time to time of debt and equity securities. As of September 30, 2006, approximately \$156.5 million was available for issuance under this Registration Statement.

Registrant anticipates that interest costs will increase in future periods due to potential market interest rate increases and the need for additional external capital to fund its construction program. In December of 2005, S&P revised AWR's rating from A- negative to A- stable. 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.

GSWC

Net cash provided by operating activities was \$47.7 million for the nine months ended September 30, 2006 as compared to \$47.2 million for the same period in 2005. The slight increase of \$0.5 million was primarily attributable to higher net income after adjustments for non-cash items, which increased cash flows from operating activities by approximately \$6.5 million. This increase was offset by higher general rate case costs, lower tax refunds received in 2006 as compared to the same period in 2005 as well as differences in the timing of remitting taxes, and the timing of cash receipts and disbursements related to other working capital items.

Net cash used in investing activities increased slightly to \$49.5 million for the nine months ended September 30, 2006 as compared to \$48.8 million for the same period in 2005.

Net cash used by financing activities was \$4.4 million for the nine months ended September 30, 2006 as compared to net cash provided by financing activities of \$3.0 million for the same period in 2005. The decrease reflects a \$2.9 million decrease in the receipt of advances for and contributions in aid of construction, and a net decrease of \$4.8 million in intercompany borrowings.

GSWC 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 GSWC's ability to recover these supply costs, and the timing of rate relief.

GSWC 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. GSWC has a Registration Statement on file with the SEC for issuance from time to time, of up to \$100.0 million of debt securities. As of September 30, 2006, \$50.0 million remained for issuance under this Registration Statement, subject to regulatory approval from the CPUC for issuance of additional debt.

On October 11, 2005, CoBank, ACB purchased a 5.87% Senior Note due December 20, 2028 in the aggregate principal amount of \$40.0 million from GSWC. The proceeds were used to pay down GSWC's intercompany short-term borrowings.

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In February 2005, Moody's Investor Services ("Moody's") changed the rating outlook for \$175 million of senior unsecured debt at GSWC from A2 negative to A2 stable. Moody's debt ratings range from Aaa (best quality) to C (lowest quality). In December 2005, S&P changed its debt rating for GSWC from A- negative to A- stable. 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.

CCWC

CCWC funds the majority of its operating expenses, payments on its debt and dividends, if any, through internal operating sources or short-term borrowings from AWR. 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. ASUS, in turn, provides funding to its subsidiaries.

Contractual Obligations and Other Commitments

Registrant has various contractual obligations which are recorded as liabilities in the consolidated financial statements. Other items, such as certain purchase commitments and operating leases are not recognized as liabilities in the consolidated financial statements, but are required to be disclosed.

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.

There have been no material changes to AWR's contractual obligations and other commitments since December 31, 2005. See "*Managements' Discussion and Analysis of Financial Condition and Results of Operation—Contractual Obligations and Other Commitments*" section of the Registrant's Form 10-K for the year-ended December 31, 2005 for a detailed discussion of contractual obligations and other commitments.

Regulatory Matters

GSWC is subject to regulation by the CPUC, which has broad powers with respect to service and facilities, rates, classification 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 GSWC 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 fair return on rate base. Rate base generally consists of the original cost of utility plant in service, 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.

GSWC is required to file a general rate case ("GRC") application every three years for each of its water rate-making areas according to a schedule established by the CPUC. GRCs typically include an increase in year one and step increases for the second and third years. Rates are based on a forecast of expenses and capital investments. GRCs have a typical regulatory processing time of one year. In California, rates may be increased by offsets for certain expense increases, including but not limited to supply cost offset and balancing account amortization, and advice letter filings related to certain plant additions and other operating cost increases. Offset rate increases and advice letter filings typically have a two to four month regulatory lag.

Neither the operations nor rates of AWR and ASUS are directly regulated by the CPUC or the ACC. The CPUC and the ACC do, however, regulate certain transactions between GSWC and CCWC and their affiliates.

The amounts charged by the subsidiaries of ASUS for water and wastewater services at military bases are based upon the terms of 50-year contracts with the U.S. Government. Prices will be re-determined at the end of two years after commencement of operations at each military base and generally every three years thereafter. In addition, prices may be equitably adjusted for changes in law, wage and benefit increases and other circumstances.

Recent Changes in Rates

On January 12, 2006, the CPUC approved GSWC's Region III rate case. The authorized rate increase for 2006 was made effective January 19, 2006 and is expected to provide GSWC additional annual revenue approximating \$5.4 million in 2006 based on a return on equity of 9.8%. For the second and the third years of this three-year GRC, the CPUC approved an annual increase of approximately \$1.9 million and \$2.3 million, respectively, subject to certain earnings tests.

On November 14, 2005, GSWC filed advice letters with the CPUC for step increases for Region I in an amount of approximately \$0.6 million and an attrition increase of approximately \$5.2 million for Region II, both of which were approved and became effective on January 1, 2006.

Pending Rate Changes in 2006

In February 2006, GSWC filed an application with the CPUC for rate increases in Region II and to cover general office expenses at the Corporate Headquarters. In the filing, GSWC requested rate increases which are expected to generate approximately \$14.9 million in annual revenues starting in 2007, with additional increases of \$4.7 million in 2008 and \$6.9 million in 2009. A decision on this application is expected in late 2006. Management is unable to predict the ultimate outcome of this rate case.

Other Regulatory Matters

New Service Territory Application

GSWC has entered into a water transfer agreement with Natomas for 30,000 acre-feet of water to be used exclusively by GSWC to serve Sutter County, California. GSWC filed for a Certificate of Public Convenience and Necessity with the CPUC on May 31, 2006 to provide retail water service in a portion of Sutter County, California. CPUC review of the application is pending, subject to completion of an environmental assessment.

Finance Application

In October of 2006, GSWC filed with the CPUC an application requesting authorization for it to issue, sell and deliver by public offering or private placement securities not exceeding \$200.0 million in aggregate offering amount, said securities consisting of, but not limited to, common shares and preferred shares, bonds, debentures, medium-term notes, loans and tax exempt debt. GSWC will use the net proceeds to first pay down all or a portion of its then outstanding short-term debt, fund its construction expenditures, and acquire utility properties.

State-Wide Rate Application

In September 2006, GSWC filed an application with the CPUC for authority to implement changes in certain ratemaking mechanisms and reallocation of rates within its entire service territory in California. The application requests authority from the CPUC to implement certain rate setting mechanisms, including the following:

- Establishment of a Water Quality Memorandum Account or Water Quality Compliance Offset Account to, among other things, permit full recovery of costs relating to water quality compliance.
- Measures to encourage and support water supply planning and investment.
- Changes to existing GSWC water shortage or emergency procedures and mandatory conservation and rationing penalties.
- Establishment of an Infrastructure System Replacement Surcharge to encourage and support infrastructure replacement needs.

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- To eliminate disincentives to conserve water and eliminate fluctuations in revenues due to weather, the establishment of a Water Revenue Adjustment Mechanism to decouple sales from revenues.
 - Consolidation of GSWC's existing offset balancing accounts, allowance for full cost recovery of supply offset costs, and elimination of a related earnings test.
 - Establishment of an increasing block rate structure to promote water conservation and rates that more accurately reflect the value of service.
 - Consolidation of GSWC's existing ratemaking districts into a state-wide, single tariff price rate structure to encourage and support long-term rate stability and affordability.
 - Measures to provide appropriate incentives and procedures to carry out the Commission's objective of consolidation of non-viable water companies.

GSWC's overall revenues are not intended to increase or decrease as a result of this Application.

Memorandum Supply Cost Accounts

In a CPUC decision issued on June 19, 2003 related to memorandum supply cost accounts, all water utilities regulated by the CPUC were required to seek review of under- and over- collections by filing an advice letter annually. In addition, the utility's recovery of such expenses was reduced by the amount exceeding the authorized rate-of return (earnings test). On April 13, 2006, the CPUC issued a decision to remove these requirements. Pursuant to this order, GSWC recognized a cumulative under-collection of approximately \$636,000 to the supply cost memorandum account provisions in the second quarter of 2006 for the under-collected balances not recognized at March 31, 2006 and began recording under- and over- collections on a monthly basis thereafter.

GSWC intends to file for recovery of the net under-collected supply costs with the CPUC in 2006 or in subsequent general rate case proceedings. GSWC filed advice letters in October 2006 for a \$1.7 million increase in supply cost and recovery of \$2.0 million of previously under-collected supply cost for GSWC's Region I, for a total revenue increase of \$3.7 million. Management believes that it is probable that the CPUC will permit GSWC to recover in rates the net under-collections in supply costs.

Santa Maria Groundwater Basin Adjudication

In 1997, the Santa Maria Valley Water Conservation District ("plaintiff") filed a lawsuit against multiple defendants, including GSWC, the City of Santa Maria, and several other public water purveyors. The plaintiff's lawsuit seeks an adjudication of the Santa Maria Groundwater Basin. A settlement of the lawsuit has been reached, subject to CPUC approval. The settlement, among other things, if approved by the CPUC, would preserve GSWC's historical pumping rights and secure supplemental water rights for use in case of drought or other reductions in the natural yield of the Santa Maria Basin. There are also a small number of nonsettling parties, and the case is going forward as to their claims. The stipulation, if approved, would preserve GSWC's position with the settling parties independent of the outcome of the case as it moves forward with the nonsettling parties. GSWC can not predict the outcome of the case as to the nonsettling parties.

As of September 30, 2006, GSWC has incurred costs of approximately \$6.3 million in defending its rights in the Santa Maria Basin, including legal and expert witness fees, which have been recorded in Utility Plant for rate recovery. In February 2006, GSWC filed for recovery of these costs with the CPUC. Management believes that the recovery of these costs through rates is probable.

Refund of Water Rights Lease Revenues

In 1994, GSWC entered into a contract to lease to the City of Folsom 5,000 acre-feet per year of water rights from the American River. GSWC included all associated revenues in a nonoperating income account. In a decision issued on March 16, 2004, the CPUC ordered GSWC to refund 70 percent of the total amount of lease revenues received since 1994, plus interest, to customers. On April 13, 2006, the CPUC authorized GSWC to reinvest all lease revenues received from the City of Folsom since January, 2004, inclusive of the balances in the regulatory liability accounts, in water system infrastructure and to include such investments in the rate base upon which GSWC earns a rate of return. As a result, GSWC transferred about \$2.3 million of water rights lease revenues received from the City of Folsom in 2004 and 2005 from the regulatory liability account into income and recorded an additional pretax income of \$311,000 and \$909,000 reflecting the three and nine months ended September 30, 2006, respectively, water rights lease revenues.

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Recovery of cost of tree removal and mitigation for Bark Beetle Infestation

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 Southern California Edison Company, 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 complying with this order. On April 13, 2006, the CPUC approved GSWC's request for the amortization of about \$351,000 for costs incurred through June 30, 2005 plus interest in the Bark Beetle Catastrophic Event Memorandum Account. At September 30, 2006, approximately \$596,000, which includes the \$351,000, has been incurred and is recorded as a regulatory asset on the balance sheets.

Outside Services Memorandum Account

In April 2006, the CPUC approved GSWC's Region II advice letter which requested recovery of the expenses recorded in the Outside Services Memorandum Account ("OSMA"), as of December 31, 2005. The decision authorized the recovery of this memorandum account to record costs incurred while working with the Water Replenishment District ("WRD"), WRD Technical Advisory Committee, Central and West Basin Municipal Water Districts, Metropolitan Water District, West Basin Water Association and Central Basin Water Association on water supply reliability and rate-related issues in Region II. GSWC incurred approximately \$374,000 and \$345,000 in the OSMA in 2004 and 2005, respectively. GSWC sought and received authorization to amortize the cumulative total of approximately \$719,000 over a 12-month period through customer rates. Accordingly, GSWC recorded a regulatory asset for this amount in April of 2006 with an offset and reduction to outside legal services during the second quarter of 2006. A surcharge went into effect in April of 2006 and accordingly, GSWC began amortizing the OSMA account. Revenues of approximately \$200,000 and \$304,000 were received from customers during the three and nine months ended September 30, 2006, respectively, relating to this surcharge. The surcharge will be in effect over a 12-month period.

Environmental Matters

Registrant's subsidiaries are subject to increasingly stringent environmental regulations including the 1996 amendments to the Federal Safe Drinking Water Act; enhanced surface water treatment rules; regulation of disinfectant/disinfection by-products; the long-term enhanced surface water treatment rules; ground water treatment rule; contaminant regulation of radon and arsenic; and unregulated contaminants monitoring rule.

Additional information on these requirements and other significant environmental matters are described in "*Management's Discussion and Analysis of Financial Condition and Results of Operation*" included in our 2005 Annual Report on Form 10-K for the year ended December 31, 2005.

In 1998, the South Coast Air Quality Management District ("AQMD") issued a permit to GSWC for the installation and use of air stripping equipment at one of GSWC's groundwater treatment systems in its Region II service area. In 2005, the AQMD conducted an inspection of this facility and issued a Notice of Violation ("NOV") for exceeding the amount of groundwater permitted to be treated by the treatment system during calendar year 2004. Since receiving the NOV, changes in GSWC procedures have prevented additional violations at the facility. The AQMD could assess penalties associated with an NOV that can range from \$10,000 up to \$75,000 per day of violation. GSWC estimates that it was in violation approximately 180 days in 2004. GSWC has met with AQMD to ensure future compliance and resolve the NOV. As part of this, GSWC also promptly submitted an application to amend the permit as an amendment may have been necessary for continued operation of the subject air stripping equipment.

The AQMD has recently recommended that GSWC be allowed to pursue a Supplemental Environmental Program ("SEP") as part of the settlement of the NOV. A SEP typically involves capital expenditures resulting in a change of process, equipment, material, or indirect source reduction for the purposes of eliminating or reducing air contaminant emissions. As part of going forward with its permit amendment application, GSWC would amend its current application to also include the addition of additional controls to the facility to reduce emissions. The

penalties which GSWC has been informed might be assessed, could likely be reduced or avoided through the settlement of this matter based on the possible funding of a SEP. In October 2006, GSWC submitted initial capital cost estimates to the AQMD for the installation and operation of granular activated carbon filters at the facility as a proposed SEP which would eliminate the use of the air stripping equipment. Initial discussions indicate that AQMD staff has favorably received GSWC's proposal and if approved, it could result in the imposition of only a nominal monetary penalty. However, until further notice from the AQMD on the proposed SEP, GSWC cannot reasonably estimate the amount of penalties which might be assessed.

There have been no other material changes in any of the environmental matters discussed in the Form 10-K since December 31, 2005.

Water Supply

The adequacy of Registrant's water supplies vary 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 Registrant's customers and others, water quality and legal limitations on use.

Population growth and increases in the amount of water used have increased limitations on use in order to prevent over-drafting of groundwater basins. The importation of water from the Colorado River, one of GSWC'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 ("MWD") 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 its ability to meet the requirements of the Arizona Department of Water Resources regarding its assured water supply account.

The U.S. Government is responsible for supplying water on military bases under the terms of contracts of the subsidiaries of ASUS with the U.S. Government.

New Accounting Pronouncements

Registrant is subject to newly issued requirements as well as changes in existing requirements issued by the Financial Accounting Standards Board. See Note 1 included in the *Notes to Consolidated Financial Statements* for disclosure on new accounting pronouncements.

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, 2005. 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.

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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 September 30, 2006, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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PART II

Item 1. Legal Proceedings

An officer of the Company has asserted a potential claim against the Company for retaliation against the officer and others in connection with alleged discriminatory conduct by the Company and its Board of Directors. Although management believes that the allegations are without merit and intends to vigorously defend against them, the Company retained an independent investigator to review the allegations and investigate the facts. Based upon the results of such investigation, the Company does not believe, but can give no assurance, that the ultimate resolution of this matter will have a material adverse effect on its financial position, results of operations, or cash flows.

There have been no material developments in any of the legal proceedings described in our 2005 Annual Report on Form 10-K.

Registrant is subject to ordinary routine litigation incidental to its business. Other than those disclosed in this section and in the Notes to the Consolidated Financial Statements in Registrant's Form 10-K for the year ended December 31, 2005, 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 1A. Risk Factors

There have been no significant changes in the risk factors disclosed in our 2005 Annual Report on Form 10-K.

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 third quarter of 2006.

The following table provides information about repurchases of Common Shares by AWR during the third quarter of 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs
July 1 – 31, 2006	891(2)	\$ 36.64	—	NA(3)
August 1 - 31, 2006	80(2)	\$ 37.50	—	NA(3)
September 1 - 30, 2006	57(2)	\$ 38.07	—	NA(3)
Total	1,028	\$ 36.79	—	NA(3)

- (1) None of the Common Shares were purchased pursuant to any publicly announced stock repurchase program.
(2) All of these Common Shares were acquired on the open market for new participants in the Company's Common Share Purchase and Dividend Reinvestment Plan.
(3) None of these plans contain a maximum number of Common Shares that may be purchased in the open market under the plans.

Item 3. Defaults Upon Senior Securities

None

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

No items were submitted during the third quarter of the 2006 fiscal year covered by this report to a vote of security holders through the solicitation of proxies or otherwise.

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Item 5. Other Information

(a) On October 27, 2006, the Board of Directors of Registrant declared a regular quarterly dividend of \$0.235 per common share. The dividend will be paid December 1, 2006 to shareholders of record as of the close of business on November 10, 2006.

Mr. Gary King was elected as a Class II director of the Company, effective November 7, 2006 with a term expiring at the annual meeting of the Company in 2008 and as a director of two of its subsidiaries, Golden State Water Company and Chaparral City Water Company, with a term expiring on the date of the annual meeting of each of these subsidiaries in 2007. There is no arrangement or understanding pursuant to which Mr. King was elected a director. Mr. King was also named as a member of the Audit and Finance Committee of the Board of Directors of the Company.

Under the terms of the Company's Amended 2003 Non-Employee Directors Stock Plan, Mr. King was automatically granted an option to purchase 3,000 of the Common Shares of the Company at an exercise price of \$36.63 per share, effective on the date of his appointment as a director. Each option is exercisable upon the date of grant and will expire ten years after the date of grant, unless Mr. King's services as a director are terminated for cause. Mr. King will be entitled to receive director and committee fees on the same basis as other directors, except that Mr. King's retainer for service as a director for the remainder of 2006, will be reduced to \$3,333.33. The Board also approved the execution of an Indemnification Agreement with Mr. King in the same form executed by the Company with its other directors.

The Company amended its bylaws on November 7, 2006 to increase the size of its Board of Directors from six to seven.

(b) There have been no material changes during the third quarter of 2006 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 Bylaws of American States Water Company, as amended ⁽¹⁾
- 3.2 Bylaws of Golden State Water Company, as amended ⁽¹⁾
- 10.1 Form of Non-Employee Director Stock Option Agreement ⁽¹⁾⁽³⁾
- 10.2 Form of Indemnification Agreement for Directors ⁽¹⁾⁽³⁾
- 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 GSWC ⁽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 GSWC ⁽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⁾

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- (1) Filed concurrently herewith
 - (2) Furnished concurrently herewith
 - (3) Compensatory benefit agreement

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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
GOLDEN STATE WATER COMPANY**

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

Dated: November 8, 2006

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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

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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 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

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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

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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:

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- (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 seven 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.

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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.

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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;

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- (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

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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.

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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

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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

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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

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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.

BYLAWS

**for the regulation, except
as otherwise provided by statute or
its Restated Articles of Incorporation,**

of

Golden State Water Company

(a California corporation)

ARTICLE I. Offices.

Section 1. PRINCIPAL EXECUTIVE OFFICE. The principal executive office of the corporation shall be fixed and located at such place as the Board of Directors (herein called the "Board") shall determine. The Board is hereby 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 at any time be established by the Board at any place or places.

ARTICLE II. Meetings of 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. ANNUAL MEETINGS. The annual meetings of shareholders shall be held on such date and at such time as may be fixed by the Board.

Section 3. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes whatsoever, 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.

ARTICLE III. Directors.

Section 1. POWERS. Subject to limitations of the Articles, these Bylaws and of the California General Corporation Law as 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.

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 amendment of the next sentence duly adopted either by the Board or by the shareholders. The exact number of directors shall be seven until changed as provided in this Section 2.

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, 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 the Board may from time to time determine.

Section 2. PRESIDENT. The President shall be 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 President shall preside at all meetings of the shareholders and at all meetings of the Board. The President has the general powers and duties of management usually vested in the office of president and general manager of a corporation and has such other powers and duties as may be prescribed by the Board.

Section 3. SECRETARY. The Secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board may order, a book of minutes of all meetings of the shareholders, the Board and its committees, and a share register or a duplicate share register.

The Secretary shall give, or cause to be given, notice of all the meetings of the shareholders and of the Board and any committees thereof required by the 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 4. CHIEF FINANCIAL OFFICER. The Chief Financial Officer is the chief financial officer of the corporation and 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 moneys and other valuables in the name and to the credit of the corporation with such depositaries 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 Treasurer 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. ANNUAL REPORT TO SHAREHOLDERS. The annual report to shareholders referred to in Section 1501 of the California General Corporation Law is expressly waived, but nothing herein shall be interpreted as prohibiting the Board from issuing annual or other periodic reports to shareholders.

Section 2. 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. Amendments.

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 be adopted only 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.

ARTICLE VII. 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.

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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,

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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.

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AMERICAN STATES WATER COMPANY
 (“Company”)

NONQUALIFIED STOCK OPTION AGREEMENT
 (Non-Employee Director Grant)

THIS OPTION AGREEMENT is between the Company and the Optionee named below and evidences the Company’s grant to the Optionee of a Nonqualified Stock Option to purchase authorized but unissued shares of the Company’s Common Shares. The Option is granted pursuant to and subject to the Company’s 2003 Non-Employee Directors Stock Plan (the “Plan”) and the Terms and Conditions for Nonqualified Stock Options Granted Under the 2003 Non-Employee Directors Stock Plan (the “Terms”), incorporated herein by this reference.

Optionee: _____ **Exercise Price**
Per Share: \$_____¹

Number of Shares: 3,000¹

Grant Date: _____, ____ **Expires:** _____, ____²

Vesting Schedule: 100% Vested on the Grant Date

Optionee has been elected, and has agreed, to serve as a director of the Company for an additional year. Optionee accepts the Option and agrees to (and acknowledges receipt of a copy of) the Plan and the Terms.

AMERICAN STATES WATER COMPANY
 (a California corporation)

AGREED AND ACKNOWLEDGED:

By: _____
 Its: _____

 (Optionee’s Signature)

 (Address)

 (City, State, Zip Code)

- 1 Subject to adjustment under Section 6 of the Plan.
- 2 Subject to early termination if the Optionee’s service is terminated for Cause (as defined in Section 2 of the Plan).

CONSENT OF SPOUSE

In consideration of the execution of the foregoing Stock Option Agreement by the Company, I, the spouse of the Optionee named above, join with my spouse in executing this Agreement and agree to be bound by all of the terms and provisions of this Agreement and of the Plan.

Date: _____ Signature of Spouse

**TERMS AND CONDITIONS FOR
 NONQUALIFIED STOCK OPTIONS
 GRANTED UNDER THE
 2003 NON-EMPLOYEE DIRECTORS STOCK PLAN**

1. **Exercisability of Option.** The Option shall be fully vested and exercisable on the Grant Date set forth on the facing page of this Option Agreement. During the Optionee’s lifetime, the Option may be exercised only by the Optionee, with limited exception pursuant to Section 10.3 of the Plan.
 - (a) **Cumulative Exercisability.** To the extent the Optionee does not in any year purchase all the shares that the Optionee may then exercise, the Optionee has the right thereafter to purchase such remaining shares until the Option terminates or expires.
 - (b) **No Fractional Shares.** Fractional share interests shall be disregarded, but may be cumulated.
 - (c) **Minimum Exercise.** No fewer than 100 shares may be purchased at any one time, unless the number purchased is the total number at the time exercisable under the Option.
2. **Method of Exercise of Option.** The Option may be exercised by the Optionee’s delivery to the Company of a properly completed and executed exercise form as from time to time approved by the Committee stating the number of shares to be purchased pursuant to the Option and accompanied by payment in the full amount of the purchase price of the shares in one or a combination of the following methods:

- (a) by cash, electronic funds transfer or by check payable to the order of the Company; and
- (b) by the delivery of shares that have been held by the Optionee for at least six months, in accordance with Section 4.3 of the Plan.

3. **Effect of Termination of Directorship.** If the Optionee's services as a director terminate for any reason other than Cause as determined under Section 304 of the California Corporations Code or any successor thereof, then the Option shall remain exercisable for the period of time set forth on the face of this Agreement.

4. **Optionee not a Shareholder.** Neither the Optionee nor any other person entitled to exercise the Option shall have any of the rights or privileges of a shareholder of the Company as to any Common Shares until the issuance and delivery to him or her of the shares acquired upon exercise of the Option. No adjustment will be made for dividends or other rights as to a shareholder for which a record date is prior to such date of delivery.

5. **Notices.** Any notice to be given shall be in writing and addressed to the Company at its principal office, to the attention of the Corporate Secretary, and to the Optionee at his or her

last address of record, or at such other address as either party may hereafter designate in writing to the other for purposes of notices in respect of the Option.

6. **Effect of Award Agreement.** The Option Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company, except to the extent the Committee determines otherwise.

7. **Choice of Law.** The constructive interpretation, performance and enforcement of the Option Agreement and the Option shall be governed by the laws of the State of California.

8. **Defined Terms.** Capitalized terms used herein and not otherwise defined herein shall have the meaning assigned by the Plan.

9. **Plan.** The Option and all rights of Optionee thereunder are subject to, and the Optionee agrees to be bound by, all of the terms and conditions of the provisions of the Plan. Unless otherwise expressly provided in these Terms and Conditions, provisions of the Plan that confer discretionary authority on the Committee do not (and shall not be deemed to) create any additional rights in the Optionee not expressly set forth in the Optionee's Option Agreement or in a written amendment thereto. If there is any conflict or inconsistency between the terms and conditions of this Option Agreement and of the Plan, the terms and conditions of the Plan shall govern. The Participant acknowledges receipt of a complete copy of the Plan and agrees to be bound by its terms.

**AMERICAN STATES WATER COMPANY
2003 NON-EMPLOYEE DIRECTORS STOCK PLAN
OPTION EXERCISE AGREEMENT**

The undersigned (the "**Purchaser**") hereby irrevocably elects to exercise his/her right, evidenced by that certain Nonqualified Stock Option Agreement dated as of _____ (the "**Option Agreement**") under the American States Water Company 2003 Non-Employee Directors Stock Plan, as amended (the "**Plan**"), as follows:

- the Purchaser hereby irrevocably elects to purchase _____ shares of Common Shares (the "**Shares**"), of American States Water Company (the "**Corporation**"), and
- such purchase shall be at the price of \$_____ per share, for an aggregate amount of \$_____.

Capitalized terms are defined in the Plan if not defined herein.

Delivery of Shares. The Purchaser requests that (1) a certificate representing the Common Shares be registered to Purchaser and delivered to: _____ or (2) that the Common Shares be registered in the Purchaser's name and electronically delivered to: _____.

Plan and Option Agreement. The Purchaser acknowledges that all of his/her rights are subject to, and the Purchaser agrees to be bound by, all of the terms and conditions of the Plan and the Option Agreement, both of which are incorporated herein by this reference. If a conflict or inconsistency between the terms and conditions of this Exercise Agreement and of the Plan or the Option Agreement shall arise, the terms and conditions of the Plan and/or the Option Agreement shall govern. The Purchaser acknowledges receipt of a copy of all documents referenced herein and acknowledges reading and understanding these documents and having an opportunity to ask any questions that he/she may have had about them.

"PURCHASER"

ACCEPTED BY:
AMERICAN STATES WATER COMPANY,
a California corporation

Signature

By: _____

Print Name

Print Name: _____

Address

Title:

City, State, Zip Code

(To be completed by the Corporation after the price, value (if applicable) and receipt of funds is verified.)



INDEMNIFICATION AGREEMENT

This Indemnification Agreement (“Agreement”) is made as of November, 8, 2004 by and between American States Water Company, a California corporation (“Company”), and (“Indemnitee”).

R E C I T A L S

A. The Indemnitee is currently serving as a director of the Company and Southern California Water Company, a California corporation, American States Utility Services, Inc., a California corporation, Chaparral City Water Company, an Arizona corporation, Fort Bliss Water Services Company, a Texas corporation, and California Cities Water Company, Inc., a California corporation, each a wholly-owned subsidiary of the Company, and in such capacities has rendered valuable services to the Company.

B. The Company has investigated the availability and sufficiency of liability insurance and California statutory indemnification provisions to provide the directors and officers of the Company and the directors and officers of its wholly owned subsidiaries with adequate protection against various legal risks and potential liabilities to which such individuals are subject due to their positions with the Company and/or its wholly owned subsidiaries and has concluded that such insurance and statutory provisions may provide inadequate and unacceptable protection to certain individuals requested to serve as directors and/or officers of the Company and/or its wholly owned subsidiaries.

C. In order to induce and encourage highly experienced and capable persons such as the Indemnitee to continue to serve as a director of the Company and each of its wholly owned subsidiaries, the Board of Directors has determined, after due consideration and investigation of the terms and provisions of this Agreement and the various other options available to the Company and the Indemnitee in lieu hereof, that this Agreement is not only reasonable and prudent but necessary to promote and ensure the best interests of the Company and its shareholders.

A G R E E M E N T

NOW, THEREFORE, in consideration of the continued services of the Indemnitee and in order to induce the Indemnitee to continue to serve as a director of the Company and Southern California Water Company, a California corporation, American States Utility Services, Inc., a California corporation, Chaparral City Water Company, an Arizona corporation, Fort Bliss Water Services Company, a Texas corporation, and California Cities Water Company, Inc., a California corporation,, the Company and the Indemnitee do hereby agree as follows:

1. **Definitions.** As used in this Agreement:

(a) The term “Proceeding” shall include any threatened, pending or completed action, suit or proceeding, formal or informal, whether brought in the name of the Company or one of its wholly owned subsidiaries or otherwise and whether of a civil,

criminal or administrative or investigative nature, against the Indemnitee by reason of the fact that the Indemnitee is or was a director and/or officer of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including, without limitation, any subsidiary or affiliated company, whether or not the Indemnitee is serving in such capacity at the time any liability or Expense is incurred for which indemnification or reimbursement is to be provided under this Agreement.

(b) The term “change of control” includes any change in the ownership of a majority of the outstanding voting securities of the Company or in the composition of a majority of the members of the board of directors of the Company.

(c) The term “Expenses” includes, without limitation, attorneys’ fees, disbursements and retainers, accounting and witness fees, travel and deposition costs, expenses of investigations, judicial or administrative proceedings and appeals, amounts paid in settlement by or on behalf of Indemnitee, and any expenses of establishing a right to indemnification, pursuant to this Agreement or otherwise, including reasonable compensation for time spent by the Indemnitee in connection with the investigation, defense or appeal of a Proceeding or action for indemnification for which the Indemnitee is not otherwise compensated by the Company or any third party. The term “Expenses” does not include the amount of judgments, fines, penalties or ERISA excise taxes actually levied against the Indemnitee.

(d) The term “fines” shall include any excise taxes assessed on Indemnitee with respect to any employee benefit plan.

(e) The term “serving at the request of the Company” includes any service, at the request or with the express or implied authorization of the Company, as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, which service imposes duties on, or involves services by, Indemnitee with respect to such corporation, partnership, joint venture, trust or other enterprise, its participants or beneficiaries. If Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of such other enterprise, its participants or beneficiaries, Indemnitee shall be deemed to have acted in a manner not opposed to the best interests of the Company.

2. **Agreement to Serve.** In reliance on this Agreement, the Indemnitee agrees to continue to serve as a director and/or officer of the Company and/or one or more its wholly owned subsidiaries for so long as the Indemnitee is duly elected or appointed or until such time as the Indemnitee tenders the Indemnitee’s resignation in writing or is removed from all positions as a director and/or officer of the Company and/or its wholly owned subsidiaries.

3. **Indemnification in Third Party Actions.** The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding (other than a Proceeding by or in the name of the Company to procure a judgment in its favor), by reason of the fact that the Indemnitee is or was a director

and/or officer of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including, without limitation, any subsidiary or affiliated company, against all Expenses, judgments, fines, penalties and ERISA excise taxes actually and reasonably incurred by the Indemnitee in connection with the defense or settlement of such a Proceeding, to the fullest extent permitted by California law and the Company's Articles of Incorporation and Bylaws; provided that any settlement of a Proceeding be approved in writing by the Company.

4. **Indemnification in Proceedings By or In the Name of the Company.** The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding by or in the name of the Company to procure a judgment in its favor by reason of the fact that the Indemnitee was or is a director and/or officer of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all Expenses, judgments, fines, penalties and ERISA excise taxes actually and reasonably incurred by the Indemnitee in connection with the defense or settlement of such a Proceeding, to the fullest extent permitted by applicable law and the Company's Articles of Incorporation and Bylaws.

5. **Conclusive Presumption Regarding Standards of Conduct.** The Indemnitee shall be conclusively presumed to have met the relevant standards of conduct, if any, as defined by California law, for indemnification pursuant to this Agreement, unless a determination is made that the Indemnitee has not met such standards (i) by the Board of Directors by a majority vote of a quorum thereof consisting of directors who were not parties to the Proceeding for which a claim is made under this Agreement, (ii) by the shareholders of the Company by majority vote of a quorum thereof consisting of shareholders who are not parties to the Proceeding due to which a claim is made under this Agreement, (iii) in a written opinion by independent counsel, the selection of whom has been approved by the Indemnitee in writing, or (iv) by a court of competent jurisdiction.

6. **Indemnification of Expenses of Successful Party.** Notwithstanding any other provision of this Agreement, to the extent that the Indemnitee has been successful in defense of any Proceeding or in defense of any claim, issue or matter therein, on the merits or otherwise, including the dismissal of a Proceeding without prejudice or the settlement of a Proceeding without an admission of liability, the Indemnitee shall be indemnified against all Expenses incurred in connection therewith to the fullest extent permitted by applicable law.

7. **Advances of Expenses.** The Expenses incurred by the Indemnitee in any Proceeding shall be paid promptly by the Company in advance of the final disposition of the Proceeding at the written request of the Indemnitee to the fullest extent permitted by applicable law; provided that the Indemnitee shall undertake in writing to repay any advances if it is ultimately determined that the Indemnitee is not entitled to indemnification by the Company.

8. **Partial Indemnification.** If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for a portion of the Expenses, judgments, fines, penalties or ERISA excise taxes actually and reasonably incurred by the Indemnitee in the

investigation, defense, appeal or settlement of any Proceeding but not, however, for the total amount of the Indemnitee's Expenses, judgments, fines, penalties or ERISA excise taxes, the Company shall nevertheless indemnify the Indemnitee for the portion of Expenses, judgments, fines, penalties or ERISA excise taxes to which the Indemnitee is entitled.

9. **Indemnification Procedure; Determination of Right to Indemnification.**

(a) Promptly after receipt by the Indemnitee of notice of the commencement of any Proceeding, the Indemnitee shall, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof in writing. The omission to so notify the Company will relieve the Company of any liability which it may have to the Indemnitee under this Agreement only if the Company is prejudiced by such omission, but will not relieve the Company from any liability which it may have to the Indemnitee otherwise than under this Agreement.

(b) If a claim for indemnification or advances under this Agreement is not paid by the Company within 30 days of receipt of written notice, the rights provided by this Agreement shall be enforceable by the Indemnitee in any court of competent jurisdiction. The burden of proving by clear and convincing evidence that indemnification or advances are not appropriate shall be on the Company. Neither the failure of the directors or shareholders of the Company or its independent legal counsel to have made a determination prior to the commencement of such action that indemnification or advances are proper in the circumstances because the Indemnitee has met the applicable standard of conduct, if any, nor an actual determination by the directors or shareholders of the Company or independent legal counsel that the Indemnitee has not met the applicable standard of conduct, shall be a defense to the action or create a presumption for the purpose of an action that the Indemnitee has not met the applicable standard of conduct.

(c) The Indemnitee's Expenses incurred in connection with any proceeding concerning the Indemnitee's right to indemnification or advances in whole or in part pursuant to this Agreement shall also be indemnified by the Company, regardless of the outcome of such action, suit or proceeding.

(d) With respect to any Proceeding for which indemnification is requested, the Company will be entitled to participate therein at its own expense and, except as otherwise provided below, to the extent that it may wish, the Company may assume the defense thereof, with counsel satisfactory to the Indemnitee. After notice from the Company to the Indemnitee of its election to assume the defense of a Proceeding, the Company will not be liable to the Indemnitee under this Agreement for any Expenses subsequently incurred by the Indemnitee in connection with the defense thereof, other than as provided below. The Company shall not settle any Proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. The Indemnitee shall have the right to employ the Indemnitee's own counsel in any Proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense of the

Proceeding shall be at the expense of the Indemnitee, unless (i) the employment of counsel by the Indemnitee has been authorized by the Company, (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of the defense of a Proceeding, or (iii) the Company shall not in fact have employed counsel to assume the defense of a Proceeding, in each of which cases the fees and expenses of the Indemnitee's counsel shall be advanced by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which the Indemnitee has concluded that there may be a conflict of interest between the Company and the Indemnitee.

10. **Limitations on Indemnification.** The Company shall make no payments pursuant to this Agreement:

(a) To indemnify or advance funds to the Indemnitee for Expenses with respect to Proceedings initiated or brought voluntarily by the Indemnitee and not by way of defense, except with respect to Proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under California law, but such indemnification or advancement of expenses may be provided by the Company in specific cases if the Board of Directors finds it to be appropriate;

(b) To indemnify the Indemnitee for any Expenses, judgments, fines, penalties or ERISA excise taxes sustained in any Proceeding for which payment is actually made to the Indemnitee under a valid and collectible insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) To indemnify the Indemnitee for any Expenses, judgments, fines or penalties sustained in any Proceeding for an accounting of profits made from the purchase or sale by the Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder and amendments thereto or similar provisions of any federal, state or local statutory law;

(d) If a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful;

(e) To indemnify the Indemnitee for any Expenses based upon or attributable to the Indemnitee gaining in fact any personal profit or advantage to which the Indemnitee was not legally entitled; and

(f) To indemnify the Indemnitee for any Expenses brought about or contributed to by the dishonesty of the Indemnitee seeking payment hereunder; however, notwithstanding the foregoing, the Indemnitee shall be protected under this Agreement to the fullest extent permitted under law as to any claims upon which suit may be brought against the Indemnitee by reason of any alleged dishonesty on the Indemnitee's part, unless a judgment or other final adjudication thereof adverse to the Indemnitee shall

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establish that the Indemnitee committed (i) acts of active and deliberate dishonesty (ii) with actual dishonest purpose and intent, which acts were material to the cause of action so adjudicated.

11. **Maintenance of Liability Insurance.**

(a) The Company hereby covenants and agrees that, as long as the Indemnitee continues to serve as a director and/or officer of the Company and/or any wholly owned subsidiary and thereafter as long as the Indemnitee may be subject to any possible Proceeding, the Company, subject to subsection (c) below, shall promptly obtain and maintain in full force and effect directors' and officers' liability insurance ("D&O Insurance") in reasonable amounts from established and reputable insurers.

(b) In all D&O Insurance policies, the Indemnitee shall be named as an insured in such a manner as to provide the Indemnitee the same rights and benefits as are accorded to the most favorably insured of the directors and officers of the Company and its wholly owned subsidiaries.

(c) Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain D&O Insurance if the Company determines, in its sole discretion, that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, the coverage provided by such insurance is so limited by exclusions that it provides an insufficient benefit, or the Indemnitee is covered by similar insurance maintained by a subsidiary of the Company. If the Company makes such a determination, it shall notify the Indemnitee within 30 calendar days.

12. **Indemnification Hereunder Not Exclusive.** The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may be entitled under the Company's Articles of Incorporation, the Company's Bylaws, any agreement, vote of shareholders or disinterested directors of the Company, provision of California law, or otherwise, both as to action in the Indemnitee's official capacity and as to action in another capacity on behalf of the Company or any wholly owned subsidiary while holding such office.

13. **Successors and Assigns.** This Agreement shall be binding upon, and shall inure to the benefit of the Indemnitee and the Indemnitee's heirs, executors, administrators and assigns, whether or not Indemnitee has ceased to be a director and/or officer of the Company or any wholly owned subsidiary or any director and/or officer of any of their successors and assigns.

14. **Merger, Consolidation or Change in Control.** If the Company is a constituent corporation in a merger or consolidation, whether the Company is the resulting or surviving corporation or is absorbed as a result thereof, or if there is a Change in Control of the Company, Indemnitee shall stand in the same position under this Agreement with respect to the resulting,

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surviving or changed corporation as Indemnitee would have with respect to the Company if its separate existence had continued or if there had been no Change in the Control of the Company.

15. **Severability.** Each and every paragraph, sentence, term and provision of this Agreement is separate and distinct so that if any paragraph, sentence, term or provision hereof 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 Agreement may be modified by a court of competent jurisdiction to preserve its validity and to provide the Indemnitee with the broadest possible indemnification permitted under applicable law.

16. **Savings Clause.** If this Agreement or any paragraph, sentence, term or provision hereof is invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify the Indemnitee as to any Expenses, judgments, fines, penalties or ERISA excise taxes incurred with respect to any Proceeding to the fullest extent permitted by any applicable paragraph, sentence, term or provision of this Agreement that has not been invalidated or by any other applicable provision of applicable law.

17. **Interpretation; Governing Law.** This Agreement shall be construed as a whole and in accordance with its fair meaning. Headings are for convenience only and shall not be used in construing meaning. This Agreement shall be governed and interpreted in accordance with the laws of the State of California.

18. **Amendments.** No amendment, waiver, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by the party against whom enforcement is sought. The indemnification rights afforded to the Indemnitee hereby are contract rights and may not be diminished, eliminated or otherwise affected by amendments to the Company's Articles of Incorporation, the Company's Bylaws or by other agreements, including directors' and officers' liability insurance policies.

19. **Counterparts.** This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreements and shall become effective when one or more counterparts have been signed by each party and delivered to the other.

20. **Notices.** Any notice required to be given under this Agreement shall be directed to American States Water Company, 630 East Foothill Blvd., San Dimas, California 91773 Attention: Chief Financial Officer, and to Indemnitee at the address given on the signature page hereto or to such other address as either shall designate in writing.

[Signature page to follow]

IN WITNESS WHEREOF, the parties have executed this Indemnification Agreement as of the date first written above.

INDEMNITEE

Notice Address:

AMERICAN STATES WATER COMPANY

By: _____
Its: _____

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

I, Floyd E. Wicks, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2006 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: November 8, 2006

By: /s/ FLOYD E. WICKS

Floyd E. Wicks

Chief Executive Officer

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

I, Floyd E. Wicks, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2006 of Golden State Water Company (referred to as "GSWC");
- 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 GSWC as of, and for, the periods presented in this report;
- 4) GSWC'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 GSWC 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 GSWC, 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 GSWC'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 GSWC's internal control over financial reporting that occurred during GSWC's most recent fiscal quarter (GSWC's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, GSWC's internal control over financial reporting.
- 5) GSWC's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the GSWC's auditors and the audit committee of GSWC'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 GSWC'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 GSWC's internal controls over financial reporting.

Dated: November 8, 2006

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, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2006 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: November 8, 2006

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 GSWC

I, Robert J. Sprowls, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period September 30, 2006 of Golden State Water Company (referred to as "GSWC");
- 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 GSWC as of, and for, the periods presented in this report;
- 4) GSWC'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 GSWC 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 GSWC, 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 GSWC'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 GSWC's internal control over financial reporting that occurred during GSWC's most recent fiscal quarter (GSWC's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, GSWC's internal control over financial reporting.
- 5) GSWC's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to GSWC'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 GSWC'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 GSWC's internal controls over financial reporting.

Dated: November 8, 2006

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
(18 U.S.C. Section 1350).*

In connection with the Quarterly Report of American States Water Company and Golden State Water Company (the "Registrant") on Form 10-Q for the quarter ended September 30, 2006, 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: November 8, 2006

*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 Golden State Water Company (the "Registrant") on Form 10-Q for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Robert J. Spowls, 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. Spowls

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

Date: November 8, 2006
