AMERICAN STATES WATER CO
Form 10-K
March 12, 2012
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011
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	**Registrant, State of Incorporation Address, Zip Code and Telephone Number**	**IRS Employer Identification No.**
001-14431	**American States Water Company** (Incorporated in California) 630 E. Foothill Boulevard, San Dimas, CA 91773-1212 (909) 394-3600	95-4676679
001-12008	**Golden State Water Company** (Incorporated in California)	95-1243678

630 E. Foothill Boulevard, San Dimas, CA 91773-1212

(909) 394-3600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American States Water Company Common Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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

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

Indicate by check mark whether Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files).

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

American States Water Company

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o	Smaller reporting company o

Golden State Water Company

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x	Smaller reporting company o

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

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

The aggregate market value of the total voting common stock held by non-affiliates of American States Water Company was approximately $647,459,000 and $699,832,000 on June 30, 2011 and March 8, 2012, respectively. The closing price per Common Share on March 8, 2012, as quoted in the *The Wall Street Journal website*, was $37.13. As of March 8, 2012, the number of Common Shares of American States Water Company outstanding was 18,848,158. As of that same date, American States Water Company owned all 146 outstanding Common Shares of Golden State Water Company. The aggregate market value of the total voting stock held by non-affiliates of Golden State Water Company was zero on June 30, 2011 and March 8, 2012.

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

Documents Incorporated by Reference:

Portions of the Proxy Statement of American States Water Company will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 13 and 14 and portions of Item 12, in each case as specifically referenced herein.

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AMERICAN STATES WATER COMPANY
and

GOLDEN STATE WATER COMPANY

FORM 10-K

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PART I

Item 1. Business

This annual report on Form 10-K is a combined report being filed by two separate Registrants: American States Water Company (hereinafter AWR), and Golden State Water Company (hereinafter GSWC). 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.

AWR makes its periodic reports, Form 10-Q and Form 10-K, and current reports, Form 8-K, available free of charge through its website, www.aswater.com, as soon as material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). Such reports are also available on the SEC s internet website at http://www.sec.gov. AWR also makes available free of charge its code of business conduct and ethics, its corporate governance guidelines and the charters of its Board of Directors, Nominating and Governance Committee, Compensation Committee, and Audit and Finance Committee through its website or by calling (800) 999-4033. AWR and GSWC have filed the certification of officers required by Section 302 of the Sarbanes-Oxley Act as Exhibits 31.1 and 31.2 to its Form 10-K for the year ended December 31, 2011.

General

AWR is the parent company of GSWC and American States Utility Services, Inc. (ASUS) and its subsidiaries (Fort Bliss Water Services Company (FBWS), Terrapin Utility Services, Inc. (TUS), Old Dominion Utility Services, Inc. (ODUS), Palmetto State Utility Services, Inc. (PSUS) and Old North Utility Services, Inc. (ONUS)). AWR was also the parent company of Chaparral City Water Company (CCWC) until the completion of the sale of CCWC on May 31, 2011. AWR was incorporated as a California corporation in 1998 as a holding company. AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has three principal business units: water and electric service utility operations conducted through GSWC, and contracted services conducted through ASUS and its subsidiaries. FBWS, TUS, ODUS, PSUS and ONUS may be referred to herein collectively as the Military Utility Privatization Subsidiaries.

GSWC is a California public utility company engaged principally in the purchase, production and distribution of water in 75 communities in 10 counties in the State of California. GSWC is regulated by the California Public Utilities Commission (CPUC). It was incorporated as a California corporation on December 31, 1929. 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 (BVES) division.

GSWC served 255,935 water customers and 23,508 electric customers at December 31, 2011, or a total of 279,443 customers, compared with 255,562 water customers and 23,257 electric customers at December 31, 2010, or a total of 278,819 customers. 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 90% of total water revenues for the years ended December 31, 2011, 2010 and 2009.

ASUS, through its wholly-owned subsidiaries, has contracted with the U.S. government to provide water and/or wastewater services at various military installations, including the operation, maintenance, renewal and replacement of the water and/or wastewater systems, pursuant to 50-year firm, fixed-price contracts. Each of the contracts with the U.S. government may be subject to termination, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of default or nonperformance by the subsidiary performing the contract. In either event, each Military Utility Privatization Subsidiary so impacted should be entitled to recover the remaining amount of its unrecovered capital investment pursuant to the terms of a termination settlement with the U.S. government at the time of termination as provided in the contract. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter under the terms of the contract. Prices are also subject to equitable adjustment based upon changes in circumstances, changes in laws and/or regulations and changes in wages and fringe benefits to the extent provided in the contract. AWR guarantees performance of ASUS military privatization contracts.

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Pursuant to the terms of these contracts, the Military Utility Privatization Subsidiaries operate, as of the effective date of their respective contracts, the following water and wastewater systems:

- FBWS - water and wastewater systems at Fort Bliss located near El Paso, Texas and extending into southeastern New Mexico;

- TUS - water and wastewater systems at Andrews Air Force Base in Maryland;

- ODUS - wastewater system at Fort Lee in Virginia and the water and wastewater systems at Fort Eustis and Fort Story in Virginia (TRADOC); as contemplated by the terms of the contract award, ODUS ceased providing water and wastewater services at Fort Monroe on September 2, 2011 pursuant to its closure under the Base Realignment and Closure Act;

- PSUS - water and wastewater systems at Fort Jackson in South Carolina; and

- ONUS - water and wastewater systems at Fort Bragg, Pope Air Force Base and Camp MacKall, North Carolina.

Certain financial information for each of AWR s business segments - water distribution, electric distribution, and contracted services - is set forth in Note 16 to the Notes to Consolidated Financial Statements of American States Water Company and its subsidiaries. AWR s water and electric distribution segments are not dependent upon a single or only a few customers. Other than a contract with a municipality to provide billing and meter reading services, which terminated on April 1, 2011, the U.S. government is the only primary customer for ASUS contracted services. ASUS may, from time to time, perform work for other prime contractors of the U.S. government.

The revenue from most of AWR s business segments is seasonal. The impact of seasonality on AWR s businesses is discussed in more detail in Item 1A *Risk Factors.*

Environmental matters and compliance with such laws and regulations are discussed in detail in Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations* under the section titled Environmental Matters.

Competition

The businesses of GSWC are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies within their existing service territories. However, GSWC may be subject to eminent domain proceedings in which government agencies, under state law, may acquire GSWC s water systems if doing so is necessary and in the public s interest. GSWC competes with governmental agencies and other investor-owned utilities in connection with offering service to new real estate developments on the basis of financial terms, availability of water and ability to commence providing service on a timely basis. AWR s other subsidiary, ASUS, actively competes for business with other investor-owned utilities, other third party providers of water and/or wastewater services, and governmental entities primarily on the basis of price and quality of service.

AWR Workforce

AWR and its subsidiaries had a total of 732 employees as of December 31, 2011 as compared to 719 employees as of December 31, 2010. GSWC had 599 employees as of December 31, 2011 as compared to 592 employees as of December 31, 2010. Nineteen positions in GSWC s Bear Valley Electric customer service area are covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers, which expires in 2013. Sixty-seven employees in GSWC s Region II are covered by a collective bargaining agreement with the Utility Workers Union of America, which expired in 2011. The collective bargaining agreement has been extended month-to-month while GSWC and the union negotiate on a new agreement. GSWC has no other unionized employees.

ASUS had 133 employees as of December 31, 2011. Eleven of the employees of a subsidiary of ASUS are covered by a collective bargaining agreement with the International Union of Operating Engineers which expires in 2013.

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Forward-Looking Information

This Form 10-K and the documents incorporated herein contain forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current estimates, expectations and projections about future events and assumptions regarding these events and include statements regarding management s goals, beliefs, plans or current expectations, taking into account the information currently available to management. Forward-looking statements are not statements of historical facts. For example, when we use words such as anticipate, believe, plan, estimate, expect, intend, may and other words th uncertainty of future events or outcomes, we are making forward-looking statements. We are not able to predict all the factors that may affect future results. We caution you that any forward-looking statements made by us are not guarantees of future performance and those actual results may differ materially from those in our forward-looking statements. Some of the factors that could cause future results to differ materially from those expressed or implied by our forward-looking statements, or from historical results, include, but are not limited to:

- The outcome of pending and future regulatory, legislative or other proceedings, investigations or audits, including decisions in our general rate cases and the results of independent audits of our construction contracting procurement practices

- Changes in the policies and procedures of the CPUC

- Timeliness of CPUC action on rates

- Our ability to efficiently manage capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recover our costs through rates

- Our ability to forecast the costs of maintaining our aging water infrastructure

- Changes in accounting valuations and estimates, including changes resulting from changes in our assessment of anticipated recovery of regulatory assets, liabilities and revenues subject to refund or regulatory disallowances

- Changes in environmental laws and water quality and wastewater requirements and increases in costs associated with complying with these laws and requirements

- Availability of water supplies, which may be adversely affected by changes in weather patterns, contamination and court decisions or other governmental actions restricting use of water from the Colorado River, transportation of water to our service areas through the State Water Project or pumping groundwater

- Our ability to recover the costs associated with the contamination of our groundwater supplies from parties responsible for the contamination or through the ratemaking process and the time and expense incurred by us in obtaining recovery of such costs

- Adequacy of our power supplies and the extent to which we can manage and respond to the volatility of electric and natural gas prices

- Our ability to comply with the CPUC s renewable energy procurement requirements

- Changes in customer demand due to unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions, cost increases and conservation

- Changes in accounting treatment for regulated utilities

- Changes in estimates used in our revenue recognition under the percentage of completion method of accounting for our construction activities at our contracted services business

- Termination, in whole or in part, of our contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government

- Delays in obtaining redetermination of prices or equitable adjustments to our prices on our contracts to provide water and/or wastewater services at military bases

- Disallowance of costs on our contracts to provide water and/or wastewater services at military bases as a result of audits, cost review or investigations by contracting agencies

- Inaccurate assumptions used in preparing bids in our contracted services business

- Failure of the collection or sewage systems that we operate on military bases resulting in untreated wastewater or contaminants spilling into nearby properties, streams or rivers

- Failure to comply with the terms of our military privatization contracts

- Failure of any of our subcontractors to perform services for us in accordance with the terms of our military privatization contracts

- Implementation of new information technology systems

- General economic conditions which may impact our ability to recover revenue from customers

- Explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and telecommunication systems, human error and similar events that may occur while operating and maintaining a water and electric system in California or operating and maintaining water and wastewater systems on military bases under varying geographic conditions

- The impact of storms, earthquakes, floods, mudslides, drought, wildfires, disease and similar natural disasters, or acts of terrorism, vandalism or cyber attacks, that affect customer demand or that damage or disrupt facilities, operations or information technology systems owned by us, our customers or third parties on whom we rely

- Restrictive covenants in our debt instruments or changes to our credit ratings on current or future debt that may increase our financing costs or affect our ability to borrow or make payments on our debt

- Our ability to access capital markets and other sources of credit in a timely manner on acceptable terms

Please consider our forward-looking statements in light of those risks as you read this Form 10-K. We qualify all of our forward-looking statement by these cautionary statements.

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Item 1A Risk Factors

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

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

Our revenues depend substantially on the rates and fees we charge our customers and the ability to recover our costs on a timely basis, including the ability to recover the costs of purchased water, groundwater assessments, electric power, natural gas, chemicals, water treatment, security at water facilities and preventative maintenance and emergency repairs. Any delays by the CPUC in granting rate relief to cover increased operating and capital costs at our public utilities or delays in obtaining approval of our requests for equitable adjustments or price redeterminations for contracted services from the U.S. government may adversely affect our financial performance. We may file for interim rates in California in situations where there may be delays in granting final rate relief during a general rate case proceeding. If the CPUC approves lower rates, the CPUC will require us to refund to customers the difference between the interim rates and the rates approved by the CPUC. Similarly, if the CPUC approves rates that are higher than the interim rates, the CPUC may authorize us to recover the difference between the interim rates and the final rates.

Regulatory decisions may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses, may overturn past decisions used in determining our revenues and expenses and could result in impairment of goodwill if the decision affects a subsidiary. Management continually evaluates the anticipated recovery of regulatory assets, liabilities and revenues subject to refund and provides for allowances and/or reserves as deemed necessary. In the event that our assessment of the probability of recovery through the ratemaking process is incorrect, we will adjust the associated regulatory asset or liability to reflect the change in our assessment or any regulatory disallowances. A change in our evaluation of the probability of recovery of regulatory assets or a regulatory disallowance of all or a portion of our costs could have a material adverse effect on our financial results.

We are also, in some cases, required to estimate future expenses and in others, we are required to incur the expense before recovering costs. As a result, our revenues and earnings may fluctuate depending on the accuracy of our estimates, the timing of our investments or expenses or other factors. If expenses increase significantly over a short period of time, we may experience delays in recovery of these expenses, the inability to recover carrying costs for these expenses and increased risks of regulatory disallowances or write-offs.

Regulatory agencies may also change their rules and policies which may adversely affect our profitability and cash flows. Changes in policies of the U.S. government may also adversely affect our military base contract operations. In certain circumstances, the U.S. government may be unwilling or unable to appropriate funds to pay costs mandated by changes in rules and policies of federal or state regulatory agencies. The U.S. government may disagree with the increases that we request and may delay approval of requests for equitable adjustment or redetermination of prices which could adversely affect our anticipated rates of return.

We may also be subject to fines or penalties if a regulatory agency determines that we have failed to comply with laws, regulations or orders applicable to our businesses, unless we appeal this determination, or our appeal of an adverse determination is denied. Regulatory agencies may also disallow certain costs if audit findings determine that we have failed to comply with our policies and procedures for procurement or other practices.

Our costs involved in maintaining water quality and complying with environmental regulation have increased and are expected to continue to increase

Our capital and operating costs have increased substantially as a result of increases in environmental regulation arising from increases in the cost of disposing of residuals from our water treatment plants, upgrading and building new water treatment plants, monitoring compliance activities and securing alternative supplies when necessary. GSWC may be able to recover these costs through the ratemaking process. We may also be able to recover these costs under settlement and contractual arrangements. In certain circumstances, costs may be recoverable from parties responsible or potentially responsible for contamination, either voluntarily or through specific court action.

We may also incur significant costs in connection with seeking to recover costs due to contamination of water supplies. Our ability to recover these types of costs also depends upon a variety of factors, including approval of rate

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increases, the willingness of potentially responsible parties to settle litigation and otherwise address the contamination and the extent and magnitude of the contamination. We can give no assurance regarding the adequacy of any such recovery to offset the costs associated with the contamination or the cost of recovery of any legal costs.

We may sustain losses that exceed or are excluded from our insurance coverage or for which we are not insured

We are, from time to time, parties to legal or regulatory proceedings. These proceedings may pertain to regulatory investigations, employment matters or other disputes. Management periodically reviews its assessment of the probable outcome of these proceedings, the costs and expenses reasonably expected to be incurred, and the availability and extent of insurance coverage. On the basis of this review, management establishes reserves for such matters. We may, however, from time to time be required to pay fines, penalties or damages that exceed our insurance coverage and/or reserves if our estimate of the probable outcome of such proceedings proves to be inaccurate.

We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities. However, our insurance policies contain exclusions and other limitations that may not cover our potential liabilities. Generally, our insurance policies cover property, worker s compensation, employer s liability, general liability and automobile liability. Each policy includes deductibles or self-insured retentions and policy limits for covered claims. As a result, we may sustain losses that exceed or that are excluded from our insurance coverage or for which we are not insured.

Additional Risks Associated with our Public Utility Operations

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

Our operations are impacted by groundwater contamination in certain service territories. We have taken a number of steps to address contamination, including the removal of wells from service, decreasing the amount of groundwater pumped from wells in order to slow the movement of plumes of contaminated water, constructing water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination. In emergency situations, we have supplied our customers with bottled water until the emergency situation has been resolved.

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

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

The adequacy of our water supplies depends upon a variety of uncontrollable factors

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

- Rainfall, runoff, flood control and availability of reservoir storage;
- Availability of Colorado River water and imported water from northern California;
- The amount of useable water stored in reservoirs and groundwater basins;
- The amount of water used by our customers and others;
- Water quality;
- Legal limitations on production, diversion, storage, conveyance and use; and
- Climate change.

Population growth and increases in the amount of water used in California have caused increased stress on surface water supplies and groundwater basins. In addition, court-ordered pumping restrictions on water obtained from the Sacramento-San Joaquin Delta may decrease the amount of water Metropolitan Water District of Southern California, or

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MWD, is able to import from northern California. We have implemented tiered rates and other practices in order to encourage water conservation. We are also acting to secure additional supplies from desalination and water transfers. However, we cannot predict to what extent these efforts to reduce stress on our water supplies will be successful or sustainable.

Water shortages at GSWC may:

- adversely affect our supply mix, for instance, causing increased reliance upon more expensive water sources;
- adversely affect our operating costs, for instance, by increasing the cost of producing water from more highly contaminated aquifers;
- result in an increase in our capital expenditures, for example by requiring the construction of pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers, and reservoirs and other facilities to conserve or reclaim water; and
- adversely affect the volume of water sold as a result of mandatory or voluntary conservation efforts by customers.

We may be able to recover increased operating and capital costs through the ratemaking process. GSWC has implemented a modified supply cost balancing account to track and recover costs from supply mix changes and rate changes by wholesale suppliers, as authorized by the CPUC. We may also recover costs from certain third parties that may be responsible, or potentially responsible, for groundwater contamination.

Our liquidity may be adversely affected by changes in water supply costs

We obtain our water supplies for GSWC from a variety of sources. For example, water is pumped from aquifers within our service areas to meet a portion of the demands of our customers. When water produced from wells in those areas is insufficient to meet customer demand or when such production is interrupted, we have purchased water from other suppliers. As a result, our cost of providing, distributing and treating water for our customers use can vary significantly. Furthermore, imported water wholesalers, such as MWD may not always have an adequate supply of water to sell to us.

Our liquidity and earnings may be adversely affected by increases in maintenance costs due to our aging infrastructure

Some of our systems in California are more than 50 years old. We have experienced leaks and water quality and mechanical problems in some of these older systems. In addition, well and pump maintenance expenses are affected by labor and material costs and more stringent water discharge requirements. Although our maintenance costs for 2011 decreased as compared to 2010, these costs can increase substantially and unexpectedly.

We include estimated increases in maintenance costs for future years in each general rate case filed by our rate-regulated public utilities for possible recovery. We may not recover overages from those estimates in rates.

Our liquidity and earnings may be adversely affected by our conservation efforts

Conservation by all customer classes at GSWC is a top priority. However, customer conservation can result in lower volumes of water sold. We are also experiencing a decline in per residential customer water usage due to the use of more efficient household fixtures and appliances by residential consumers, and perhaps, efforts by our customers to reduce costs.

Our water utility business is heavily dependent upon revenue generated from rates charged to our residential customers for the volume of water used. The rates we charge for water are regulated by the CPUC and may not be adequately adjusted to reflect changes in demand. Declining usage also negatively impacts our long-term operating revenues if we are unable to secure rate increases or if growth in the residential customer base does not occur to the extent necessary to offset the per customer residential usage decline.

We implemented a CPUC approved water revenue adjustment mechanism at GSWC which has the effect of reducing the adverse impacts of our customers conservation efforts on revenues. However, cash flows from operations can

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be significantly affected as much of the revenues we recognize in these accounts are collected from customers primarily through surcharges over a twelve to thirty-six month period.

Our earnings may be affected, to some extent, by weather during different seasons

The demand for water and electricity varies by season. For instance, most water consumption occurs during the third quarter of each year when weather in California tends to be hot and dry. During unusually wet weather, our customers generally use less water. GSWC has implemented a CPUC approved water revenue adjustment mechanism, which should help mitigate fluctuations in revenues and earnings due to changes in water consumption by our customers in California.

The demand for electricity in our electric customer service area is greatly affected by winter snows. An increase in winter snows reduces the use of snowmaking machines at ski resorts in the Big Bear area and, as a result, reduces our electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snowmaking conditions, which also reduces our electric revenues. GSWC has implemented a base revenue requirement adjustment mechanism for our electric business which should help mitigate fluctuations in the revenues and earnings of our electric business due to changes in the amount of electricity used by GSWC s electric customers.

Our liquidity may be adversely affected by increases in electricity and natural gas prices in California

We purchase most of our electric energy sold to customers in our electric customer service area from others under purchased power contracts. In addition to purchased power contracts, we purchase additional energy from the spot market to meet peak demand. We may sell surplus power to the spot market during times of reduced energy demand. As a result, we are at risk for increases in spot market prices of electricity purchased and for decreases in spot market prices for electricity sold. We also operate a natural gas-fueled 8.4 megawatt generator in our electric service area.

Unexpected generator downtime or a failure to perform by any of the counterparties to our electric and natural gas purchase contracts could further increase our exposure to fluctuating natural gas and electric prices.

Changes in electricity prices also affect the unrealized gains and losses on our block forward purchased power contracts that qualify as derivative instruments as we adjust the asset or liability on these contracts to reflect the fair market value of the contracts at the end of each month. The CPUC has authorized us to establish a memorandum account to track the changes in the fair market value of our purchased power contracts that became effective on January 1, 2009. As a result, unrealized gains and losses on these purchased power contracts do not impact earnings.

We may not be able to procure sufficient renewable energy resources to comply with CPUC rules

We are required to procure a portion of our electricity from renewable energy resources. Due to our small size as compared to other energy utilities and the constrained renewable energy market, we have not been able to obtain sufficient resources to achieve the established interim target purchase levels. We believe that we are permitted to defer compliance with these requirements under the CPUC s flexible compliance rules. However, we may be subject to fines and penalties by the CPUC if the CPUC determines that we are not in compliance with the renewable resource procurement rules.

Our assets are subject to condemnation

Municipalities and other government subdivisions may, in certain circumstances, seek to acquire certain of our assets through eminent domain proceedings. It is generally our practice to contest these proceedings which may be costly and may divert the attention of management from the operation of our business. If a municipality or other government subdivision succeeds in acquiring our assets, there is a risk that we will not receive adequate compensation for the assets acquired or be able to recover all charges associated with the divestiture of these assets.

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Additional Risks Associated with our Contracted Services

We derive revenues from contract operations primarily from the operation and maintenance of water and/or wastewater systems at military bases and the construction of water and wastewater improvements to the infrastructure on these bases. As a result, these operations are subject to risks that are different than those of our public utility operations.

Our operations and maintenance contracts on military bases create certain risks that are different from our public utility operations

We have entered into contracts to provide water and/or wastewater services at military bases pursuant to 50-year contracts, subject to termination, in whole or in part, for the convenience of the U.S. government. In addition, the U.S. government may stop work under the terms of the contracts, delay performance of our obligations under the contracts or modify the contracts at its convenience.

Our contract pricing was based on a number of assumptions, including assumptions about prices and availability of labor, equipment and materials. We may be unable to recover all costs if any of these assumptions are inaccurate or if all costs that we may incur in connection with performing the work were not considered. Our contracts are also subject to periodic price adjustments at the time of price redetermination or in connection with requests for equitable adjustments or other changes permitted by the terms of the contracts. The contract price for each of these contracts is subject to redetermination 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, laws or regulations and changes in wages and fringe benefits to the extent provided in each of the contracts.

We have experienced delays in the redetermination of prices following completion of the first two years of operation under our contracts. We have also experienced delays in obtaining a final equitable adjustment of prices for the significantly higher infrastructure at certain of the bases than that described by the U.S. government in its request for proposal. These delays have negatively impacted our results of operations and cash flows.

We are required to record all costs incurred under these types of contracts as these costs are incurred. As a result, we may record losses associated with unanticipated conditions, higher than anticipated infrastructure levels and emergency work at the time such expenses occur. We recognize revenue for such work as, and to the extent that, our price redeterminations and/or requests for equitable adjustments are approved. Delays in obtaining approval of price redeterminations and/or equitable adjustments can negatively impact our results of operations and cash flows.

We are subject to audits, cost review and investigations by contracting oversight agencies. Certain audit findings such as system deficiencies for government contract reporting requirements may result in delays in price redetermination filings. During the course of an audit, the oversight agency may disallow costs. Such cost disallowances may result in adjustments to previously reported revenues.

Payment under these contracts is subject to appropriations by Congress. We may experience delays in receiving payment or delays in redetermination of prices or other price adjustments due to cancelled or delayed appropriations specific to our projects or reductions in government spending for the military generally or military base operations specifically. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures for the military generally or military base operations specifically.

Management also reviews goodwill for impairment at least annually. ASUS has $1.1 million of goodwill which may be at risk for potential impairment if requested price redeterminations and/or equitable adjustments are not granted.

Risks associated with the collection of wastewater are different, in some respects, from that of our water distribution operations

The wastewater collection system operations of our subsidiaries providing wastewater services on military bases are subject to substantial regulation and involve significant environmental risks. If collection or sewage systems fail, overflow or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, which may not be recoverable. This risk is most acute during periods of substantial rainfall or flooding, which are common causes of sewer

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overflows and system failures. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. In the event that we are deemed liable for any damage caused by overflow, our losses might not be covered by insurance policies or we may find it difficult to secure insurance for this business in the future at acceptable rates.

Our contracts for the construction of infrastructure improvements on military bases create risks that are different, in some respects, from that of our operations and maintenance activities

We have entered into contract modifications with the U.S. government (and in some cases third parties) for the construction of new water and/or wastewater infrastructure at the military bases. Most of these contracts are firm fixed-price contracts. Under firm fixed-price contracts, we benefit from cost savings and earnings, but are generally unable to recover any cost overruns to the approved contract price. Under extenuating circumstances, the U.S. government has approved increased cost change orders.

We recognize revenues from these types of contracts using the percentage-of-completion method of accounting. This accounting practice results in our recognizing contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs or the physical completion of the construction projects. The earnings or losses recognized on individual contracts are based on periodic estimates of contract revenues, costs and profitability as the construction projects progress.

We establish prices for these types of firm fixed-price contracts based, in part, on cost estimates that are subject to a number of assumptions, including assumptions regarding future economic conditions. If these estimates prove inaccurate or circumstances change, cost overruns could have a material adverse effect on our contracted business operations and results of operations.

We may be adversely affected by disputes with the U.S. government regarding our performance of contract services on military bases

If there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows could be adversely affected.

If we fail to comply with the terms of one or more of our U.S. government contracts, other agreements with the U.S. government or U.S. government regulations and statutes, we could be suspended or barred from future U.S. government contracts for a period of time and be subject to possible damages, fines and penalties and damage to our reputation in the water and wastewater industry.

We depend, to some extent, upon subcontractors to assist us in the performance of contracted services on military bases

We rely, to some extent, on subcontractors to assist us in the operation and maintenance of the water and wastewater systems at military bases. The failure of any of these subcontractors to perform services for us in accordance with the terms of our contracts with the U.S. government could result in the termination of our contract to provide water and/or wastewater services at the affected base(s), a loss of revenues or increases in costs to correct a subcontractor s performance failures. We are able to mitigate these risks, in part, by obtaining and requiring our subcontractors to obtain performance bonds.

We are also required to make a good faith effort to achieve our small business subcontracting plan goals pursuant to U.S. government regulation. If we fail to use good faith efforts to meet these goals, the U.S. government may assess damages against us at the end of the contract or, for most contracts, at the end of each price redetermination period. The U.S. government has the right to offset claimed damages against any amounts owed to us.

We also rely on third-party manufacturers as well as third-party subcontractors to complete our construction projects. To the extent that we cannot engage subcontractors or acquire equipment or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount of costs we incur for these projects exceeds the amount we have estimated in our bid, we could experience reduced profits or losses in the performance of these contracts. In addition, if a subcontractor or manufacturer is unable to deliver its services, equipment or materials according to the

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negotiated terms for any reason, including the deterioration of its financial condition, we may be required to purchase the services, equipment or materials from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the services, equipment or materials were needed.

If these subcontractors fail to perform services to be provided to us or fail to provide us with the proper equipment or materials, we may be penalized for their failure to perform; however, our contracts with these subcontractors include certain protective provisions, which may include the assessment of liquidated damages. We mitigate these risks by requiring many of our subcontractors to obtain performance bonds and to compensate us for any penalties we may be required to pay as a result of their failure to perform.

Our earnings may be affected, to some extent, by weather during different seasons

Seasonal weather conditions, such as hurricanes or significant winter storms, occasionally cause temporary office closures and/or result in temporary halts to construction activity at military bases. To the extent that our construction activities are impeded by these events, we will experience a delay in recognizing revenues from these construction projects.

We continue to incur costs associated with the expansion of our contract activities

We continue to incur additional costs in connection with the attempted expansion of our contract operations associated with the preparation of bids for new contracts for contract operations on military bases. Our ability to recover these costs and to earn a profit on our contract operations will depend upon the extent to which we are successful in obtaining new contracts on military bases and recovering these costs and other costs from new contract revenues.

Other Risks

Our business requires significant capital expenditures

The utility business is capital intensive. On an annual basis, we spend significant sums of money for additions to, or replacement of, our property, plant and equipment at our water and electric utilities. We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which are repaid over a period of time at no interest). We also periodically borrow money or issue equity for these purposes. In addition, we have a syndicated bank credit facility that is partially used for these purposes. We cannot provide assurance that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return.

Our subsidiaries providing water and wastewater services on military bases also expect to incur significant capital expenditures. To the extent that the U.S. government does not reimburse us for these expenditures as the work is performed or completed, the U.S. government will repay us over time. However, if there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows will be adversely affected.

We may be adversely impacted by economic conditions

Access to external financing on reasonable terms depends, in part, on conditions in the debt and equity markets. When business and market conditions deteriorate, we may no longer have access to the capital markets on reasonable terms. Our ability to obtain funds is dependent upon our ability to access the capital markets by issuing debt or equity to third parties or obtaining funds from our revolving credit facility which expires in May 2013. In the event of financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry, significant financial service institution failures or our inability to renew or replace our existing revolving credit facility on attractive terms, it may become necessary for us to seek funds from other sources on unattractive terms.

Payment of our debt may be accelerated if we fail to comply with restrictive covenants in our debt agreements

Our failure to comply with restrictive covenants in our debt agreements could result in an event of default. If the default is not cured or waived, we may be required to repay or refinance this debt before it becomes due. Even if we are able to obtain waivers from our creditors, we may only be able to do so on unfavorable terms.

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We are a holding company that depends on cash flow from GSWC to meet our financial obligations and to pay dividends on our common shares

As a holding company, our subsidiaries conduct substantially all operations and our only significant assets are investments in our subsidiaries. This means that we are dependent on distributions of funds from our subsidiaries to meet our debt service obligations and to pay dividends on our common shares. ASUS has not paid any dividends to us during the past three years. As a result, we are largely dependent on cash flow from GSWC to meet our financial obligations and to pay dividends on our common shares.

Our subsidiaries are separate and distinct legal entities and generally have no obligation to pay any amounts due on our debt. Our subsidiaries only pay dividends if and when declared by the subsidiary board. Moreover, GSWC is obligated to give first priority to its own capital requirements and to maintain a capital structure consistent with that determined to be reasonable by the CPUC in its most recent decision on capital structure, in order that customers not be adversely affected by the holding company structure. Furthermore, our right to receive cash or other assets in the unlikely event of liquidation or reorganization of GSWC is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from GSWC in a timely manner, we may be unable to meet our financial obligations, make additional investments or pay dividends.

We must successfully maintain and/or upgrade our information technology systems as we are increasingly dependent on the continuous and reliable operation of these systems

We rely on various information technology systems to manage our operations. Over the last few years, we have implemented and will continue to implement modifications and upgrades to our systems, including making changes to legacy systems, replacing legacy systems with successor systems with new functionality and acquiring new systems. These types of activities subject us to inherent costs and risks including potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, retention of sufficiently skilled personnel to implement and operate the new systems, and other risks and costs of delays or difficulties in transitioning to new systems or of integrating new systems into our current systems. In addition, the difficulties with implementing new technology systems may cause disruptions in our business operations and have an adverse effect on our business and operations, if not anticipated and appropriately mitigated.

We rely on our computer, information and communications technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. Our computer and communications systems and operations could be damaged or interrupted by natural disasters, telecommunications, failures or acts of war or terrorism or similar events or disruptions. Any of these or other events could cause system interruption, delays and loss of critical data or delay or prevent operations and adversely affect our financial results.

There have been an increasing number of cyber-attacks on companies around the world, which have caused operational failures or compromised sensitive corporate or customer data. These attacks have occurred over the internet, through malware, viruses or attachments to e-mails or through persons inside the organization or with access to systems inside the organization. We have implemented security measures and will continue to devote significant resources to address security vulnerabilities in an effort to prevent cyber-attacks. Despite our efforts, we cannot be assured that a cyber-attack will not cause water or electric system problems, disrupt service to our customers, compromise important data or systems or result in unintended release of customer information.

Our operations are geographically concentrated in California

Although we operate water and wastewater facilities in a number of states, our operations are concentrated in California, particularly southern California. As a result, our financial results are largely subject to political, water supply, labor, utility cost and regulatory risks, economic conditions and other economic risks affecting California. California has been particularly hard hit by the recent economic crisis. California is, among other things, raising taxes in order to help balance the state budget and jobs may be lost to other states which are perceived as having a more business friendly climate, thereby exacerbating the impact of the financial crisis in California.

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We operate in areas subject to natural disasters or that may be the target of terrorist activities

We operate in areas that are prone to earthquakes, fires, mudslides and other natural disasters. While we maintain insurance policies to help reduce our financial exposure, a significant seismic event in southern California, where our operations are concentrated, or other natural disasters in California could adversely impact our ability to deliver water and adversely affect our costs of operations. The CPUC has historically allowed utilities to establish a catastrophic event memorandum account to recover these costs.

Terrorists could seek to disrupt service to our customers by targeting our assets. We have invested in additional security for facilities throughout our regulated service areas to mitigate the risks of terrorist activities. We also may be prevented from providing water and/or wastewater services at the military bases we serve in times of military crisis affecting these bases.

Item 1B Unresolved Staff Comments

None.

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Item 2 - Properties

Water Properties

As of December 31, 2011, GSWC s physical properties consisted of water transmission and distribution systems which included 2,780 miles of pipeline together with services, meters and fire hydrants and approximately 425 parcels of land, generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including three surface water treatment plants. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using pipes and appurtenances for transmitting and distributing water.

As of December 31, 2011, GSWC owned 243 wells, of which 189 are active operable wells equipped with pumps with an aggregate production capacity of approximately 199.9 million gallons per day. GSWC has 60 connections to the water distribution facilities of the MWD, and other municipal water agencies. GSWC s storage reservoirs and tanks have an aggregate capacity of approximately 109 million gallons. GSWC owns no dams in its customer service areas. The following table provides, in greater detail, information regarding the water utility plant of GSWC:

Pumps		Distribution Facilities			Reservoirs	
Well	Booster	Mains*	Services	Hydrants	Tanks	Capacity*
243	367	2,780	256,059	23,253	145	109,228(**1**)

* Reservoir capacity is measured in thousands of gallons. Mains are in miles.

(1) GSWC has additional treatment capacity in its Bay Point system, through an exclusive capacity right to use 4.4 million gallons from a treatment plant owned by Contra Costa Water District. GSWC also has additional reservoir capacity in its Claremont system, through an exclusive right to use all of one 8 million gallon reservoir, one-half of another 8 million gallon reservoir, and one-half of a treatment plant s capacity, all owned by Three Valleys Municipal Water District.

Electric Properties

GSWC s electric properties are located in the Big Bear area of San Bernardino County, California. As of December 31, 2011, GSWC owned and operated 29 miles of overhead 34.5 kilovolt (kv) transmission lines, 1 mile of underground 34.5 kv transmission lines, 178.3 miles of 4.16 kv or 2.4 kv distribution lines, 53.18 miles of underground cable, 13 sub-stations and a natural gas-fueled 8.4 MW peaking generation facility. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using poles, wires and other appurtenances for transmitting electricity.

Adjudicated and Other Water Rights

GSWC owns groundwater and surface water rights in California. Groundwater rights are further subject to classification as either adjudicated or unadjudicated rights. Adjudicated rights have been subjected to comprehensive litigation in the courts, are typically quantified and are actively managed for optimization and sustainability of the resource. Surface water rights are quantified and managed by the State Water Resources Control Board, unless they originated prior to 1914, in which case they resemble unadjudicated groundwater rights. As of December 31, 2011, GSWC had adjudicated groundwater water rights and surface water rights of 76,488 and 11,335 acre feet per year, respectively. GSWC also has a number of unadjudicated groundwater rights, which have not been quantified and are not subject to predetermined limitations, but are typically measured by maximum historical usage over the last five years.

Office Buildings

Registrant s general headquarters are housed in two office buildings located in San Dimas, California, one of which GSWC owns. GSWC also owns and/or leases certain facilities that house regional, district and customer service offices. ASUS leases office facilities in California, Georgia and Virginia. TUS, PSUS and FBWS rent temporary service center facilities in Maryland, South Carolina and Texas, respectively. ODUS and ONUS own service centers in Virginia and North Carolina, respectively, and ONUS also rents temporary support facilities.

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Mortgage and Other Liens

As of December 31, 2011, GSWC had no mortgage debt outstanding or liens securing indebtedness.

As of December 31, 2011, neither AWR nor ASUS or any of its subsidiaries had any mortgage debt or liens securing indebtedness, outstanding. However, under the terms of certain debt of AWR and GSWC, AWR and GSWC are prohibited from issuing any secured debt, without providing equal and ratable security to the holders of this existing debt.

Condemnation of Properties

The laws of the State of California provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation, where doing so is necessary and in the public interest. In addition, these laws provide: (i) that the owner of utility property may contest whether the condemnation is actually necessary and in the public interest, and (ii) that the owner is entitled to receive the fair market value of its property if the property is ultimately taken.

Although the City of Claremont, California (the City) 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. On January 5, 2012, the Claremont City council members directed staff to pursue analysis required for potential acquisition of the water system and allocated funds from its general reserve for such analysis. GSWC serves approximately 11,000 customers in Claremont.

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

In April 2011, an organization called Ojai FLOW (Friends of Locally Owned Water) started a local campaign for the Casitas Municipal Water District to purchase GSWC s Ojai water system. The Ojai City Council passed a resolution supporting the efforts of Ojai FLOW at their regular meeting on April 26, 2011. In May 2011, Ojai FLOW submitted a petition with over 1,800 signatures to the Casitas Municipal Water District supporting the recommended acquisition of GSWC s Ojai water system. The Casitas Municipal Water District s Water Resources Committee is presently considering the proposal by Ojai FLOW. GSWC serves approximately 3,000 customers in Ojai.

Except for the City of Claremont, the Town of Apple Valley and the City of Ojai, Registrant is currently not involved in activities related to the potential condemnation of any of its water customer service areas or in its BVES customer service area. No formal condemnation proceedings have been filed against any of the Registrant s service areas during the past three years.

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Item 3 - Legal Proceedings

Water Quality-Related Litigation:

Perchlorate and/or Volatile Organic Compounds (VOC) have been detected in certain wells servicing GSWC s South San Gabriel System. GSWC filed suit in federal court, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority, together known as the Water Entitiesagainst some of those allegedly responsible for the contamination of two of these wells. In response to the filing of the lawsuit, the Potentially Responsible Party (PRP) defendants filed motions to dismiss the suit or strike certain portions of the suit. The judge issued a ruling on April 1, 2003 granting in part and denying in part the PRP s motions. A key ruling of the court was that the water purveyors, including GSWC, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). GSWC has amended its suit to claim certain affirmative defenses as an innocent party under CERCLA. GSWC is presently unable to predict an estimate range of loss, if any, in the event that GSWC is deemed to be a PRP, or on GSWC s ability to fully recover from the PRPs, past and future costs associated with the treatment of these wells. On August 29, 2003, the US Environmental Protection Agency (EPA) issued Unilateral Administrative Orders (UAO) against 41 parties deemed responsible for polluting the groundwater in portions of the San Gabriel Valley from which two GSWC wells draw water. The UAO requires these parties to remediate the contamination.

On October 12, 2004, the judge in the lawsuit stayed the matter in order to allow the parties to explore settlement and appointed a special master to oversee mandatory settlement discussions between the PRPs and the Water Entities. EPA has also conducted settlement discussions with several PRPs regarding the UAO. The Water Entities and EPA have worked closely to coordinate their settlement discussions under the auspices of the special master in order to arrive at a complete resolution of all issues affecting the lawsuit and the UAO. Settlements have been reached with a majority of the PRPs.

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

Santa Maria Groundwater Basin Adjudication:

In 1997, the Santa Maria Valley Water Conservation District (plaintiff) filed a lawsuit against multiple defendants, including GSWC, the City of Santa Maria, and several other public water purveyors. The plaintiff s lawsuit sought an adjudication of the Santa Maria Groundwater Basin (the Basin). A stipulated settlement of the lawsuit has been reached, subject to CPUC approval. The settlement, among other things, if approved by the CPUC, would preserve GSWC s historical pumping rights and secure supplemental water rights for use in case of drought or other reductions in the natural yield of the Basin. GSWC, under the stipulation, has a right to 10,000 acre-feet of groundwater replenishment provided by the Twitchell Project, a storage and flood control reservoir project operated by the Santa Maria Valley Conservation District. A monitoring and annual reporting program has been established to allow the parties to responsibly manage the Basin and to respond to shortage conditions. If severe water shortage conditions are found over a period of five years, the management area engineer will make findings and recommendations to alleviate such shortages. In the unlikely case that the Basin experiences severe shortage conditions, the court has the authority to limit

GSWC s groundwater production to 10,248 acre-feet per year, based on developed water in the Basin. Over the last five years, GSWC s average groundwater production has been 10,140 acre-feet per year.

On February 11, 2008, the court issued its final judgment, which approves and incorporates the stipulation. The judgment awards GSWC prescriptive rights to groundwater against the non-stipulating parties. In addition, the judgment grants GSWC the right to use the Basin for temporary storage and to recapture 45 percent of the return flows that are generated from its importation of State Water Project water. Pursuant to this judgment, the court retains jurisdiction over all of the parties to make supplemental orders or to amend the judgment as necessary. On March 20, 2008, the non-stipulating parties filed notices of appeal. In August 2010, the appellants filed their opening briefs. Registrant is unable to predict the outcome of the appeal.

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***Other Litigation*:**

Registrant is also subject to ordinary routine litigation incidental to its business. 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. Management is unable to predict an estimate of the loss, if any, resulting from any pending suits or administrative proceedings.

Item 4. Mine Safety Disclosure

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Performance Graph

The graph below matches American States Water Company s cumulative 5-year total shareholder return on common stock with the cumulative total returns of the S&P 500 index, and a customized peer group of five companies that includes: Artesian Resources Corporation, California Water Service Group, Connecticut Water Service Inc, Middlesex Water Company and SJW Corp. The graph tracks the performance of a $100 investment in our Common Shares, in the peer group, and the index (with the reinvestment of all dividends) from December 31, 2006 to December 31, 2011.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among American States Water Company, the S&P 500 Index, and a Peer Group

*$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

	12/06	12/07	12/08	12/09	12/10	12/11
American States Water Company	**$ 100.00**	**$ 99.93**	**$ 90.00**	**$ 99.48**	**$ 99.73**	**$ 104.26**
S&P 500	**100.00**	**105.49**	**66.46**	**84.05**	**96.71**	**98.75**
Peer Group	**100.00**	**95.85**	**102.20**	**90.10**	**99.73**	**99.42**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Market Information Relating to Common Shares

Common Shares of American States Water Company are traded on the New York Stock Exchange (NYSE) under the symbol AWR . The intra-day high and low NYSE prices on the Common Shares for each quarter during the past two years, as reported by the Wall Street Journal s website, were:

	Stock Prices			
	High		Low	
2011				
First Quarter	$	36.07	$	32.67
Second Quarter		36.45		32.76
Third Quarter		35.75		30.53
Fourth Quarter		36.27		32.30
2010				
First Quarter	$	36.42	$	31.20
Second Quarter		39.61		31.41
Third Quarter		37.00		31.24
Fourth Quarter		38.59		33.01

The closing price of the Common Shares of American States Water Company on the NYSE as reported on the Wall Street Journal s website on March 8, 2012 was $37.13.

Approximate Number of Holders of Common Shares

As of March 8, 2012, there were 2,664 holders of record of the 18,848,158 outstanding Common Shares of American States Water Company. AWR owns all of the outstanding common shares of GSWC and ASUS. ASUS owns all of the outstanding stock of the Military Utility Privatization Subsidiaries.

Frequency and Amount of Any Dividends Declared and Dividend Restrictions

For the last two years, AWR has paid dividends on its Common Shares on or about March 1, June 1, September 1 and December 1. The following table lists the amount of dividends paid on Common Shares of American States Water Company:

	2011		2010	
First Quarter	$	0.26	$	0.26
Second Quarter	$	0.28	$	0.26
Third Quarter	$	0.28	$	0.26

Fourth Quarter	$	0.28	$	0.26
Total	$	1.10	$	1.04

AWR s ability to pay dividends is subject to the requirement in its $100.0 million revolving credit facility to maintain compliance with all covenants described in footnote (15) to the table in the section entitled *Contractual Obligations, Commitments and Off Balance Sheet Arrangements* included in Part II, Item 7 in Management s Discussion and Analysis of Financial Condition and Results of Operation. GSWC s maximum ability to pay dividends is restricted by certain Note Agreements to the sum of $21.0 million plus 100% of consolidated net income from certain dates plus the aggregate net cash proceeds received from capital stock offerings or other instruments convertible into capital stock from various dates. Under the most restrictive of the Note Agreements, $323.6 million was available from GSWC to pay dividends to AWR as of December 31, 2011. GSWC is also prohibited under the terms of senior notes from paying dividends if, after giving effect to the dividend, its total indebtedness to capitalization ratio (as defined) would be more than 0.6667 to 1. GSWC would have to issue additional debt of $416.9 million to invoke this covenant as of December 31, 2011.

The ability of AWR, GSWC and ASUS to pay dividends is also restricted by California law. Effective January 1, 2012, California revised the legal standards applicable to a California corporation seeking to distribute dividends. Under the revised law, AWR, GSWC and ASUS are each permitted to distribute dividends to its shareholders so long as the Board of Directors determines, in good faith, that either: (i) the value of the corporation s assets equals or exceeds the sum of its total liabilities immediately after the dividend, or (ii) its retained earnings equals or exceeds the amount of the distribution. Under the least restrictive of the California tests, approximately $175.4 million was available to pay dividends to AWR s common shareholders at December 31, 2011. Approximately $155.9 million was available for GSWC to pay dividends to AWR at December 31, 2011. Approximately $9.1 million was available for ASUS to pay dividends to AWR at December 31, 2011.

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AWR paid $20.6 million in common dividends to shareholders for the year ended December 31, 2011, as compared to $19.3 million for the year ended December 31, 2010. GSWC paid dividends of $20.0 million and $19.6 million to AWR in 2011 and 2010, respectively. CCWC paid a dividend of $1.5 million to AWR on May 26, 2011 and no dividends during 2010. ASUS did not pay any dividends to AWR in 2011 or 2010.

Securities Authorized for Issuance under Equity Compensation Plans

AWR has made stock awards to its executive officers and managers under the 2000 Stock Incentive Plan and the 2008 Stock Incentive Plan. It has also made stock awards to its non-employee directors under the Non-Employee Directors Stock Plan. Information regarding the securities which have been issued and which are available for issuance under these plans are set forth in the table below as of December 31, 2011. This table does not include any common shares that may be issued under our 401(k) plan.

Plan Category	(a)(1) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c)(1) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	619,984	$ 32.75	859,420
Equity compensation plans not approved by shareholders			
Total	619,984	$ 32.75	859,420

(1) Amounts shown are for options granted only. At December 31, 2011, there were 75,833 restricted stock units outstanding that had been granted to employees under the 2000 and 2008 Stock Incentive Plans and 61,840 restricted stock units outstanding that had been granted to directors under the 2003 Non-Employee Directors Stock Plan. Each restricted stock unit was issued with dividend equivalent rights until the restricted stock unit vests or is terminated earlier pursuant to the terms of the grant. We may not grant restricted stock units with respect to more than 118,000 of our common shares under the 2003 Non-Employee Directors Stock Plan.

Other Information

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 2011.

The following table provides information about AWR repurchases of its Common Shares during the fourth quarter of 2011:

	Total Number of Shares Purchased as	Maximum Number of Shares That May

Period	Total Number of Shares Purchased		Average Price Paid per Share	Part of Publicly Announced Plans or Programs (1)	Yet Be Purchased under the Plans or Programs (3)
October 1 - 31, 2011	64,717	$	34.23		NA
November 1 - 30, 2011	40,109	$	34.67		NA
December 1 - 31, 2011	17,114	$	34.99		NA
TOTAL	121,940(2)	$	34.48		NA

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

(2) Of this amount, 121,850 Common Shares were acquired on the open market for employees pursuant to our 401(k) Plan. The remainder of the Common Shares were acquired on the open market for participants in AWR 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. There is no termination date for either of these plans.

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Item 6. Selected Financial Data

AMERICAN STATES WATER COMPANY (AWR):

(in thousands, except per share amounts)	2011	2010 (3)	2009	2008 (4)	2007
Income Statement Information:					
Total Operating Revenues	$ 419,274	$ 398,942	$ 353,251	$ 311,246	$ 293,666
Total Operating Expenses	324,170	325,123	284,409	250,308	227,873
Operating Income	95,104	73,819	68,842	60,938	65,793
Interest Expense	23,681	21,636	21,899	20,877	21,102
Interest Income	859	2,406	911	1,832	2,321
Income from Continuing Operations	$ 42,010	$ 31,091	$ 29,374	$ 25,996	$ 27,121
Income (loss) from Discontinued Operations, net of tax **(1)**	$ 3,849	$ 2,106	$ 157	$ (3,991)	$ 909
Basic Earnings per Common Share **(2):**					
Income from Continuing Operations	$ 2.24	$ 1.67	$ 1.62	$ 1.50	$ 1.57
Income (loss) from Discontinued Operations **(1)**	0.20	0.11	0.01	(0.23)	0.05
Total	$ 2.44	$ 1.78	$ 1.63	$ 1.27	$ 1.62
Fully Diluted Earnings per Common Share **(2):**					
Income from Continuing Operations	$ 2.23	$ 1.66	$ 1.61	$ 1.49	$ 1.56
Income (loss) from Discontinued Operations **(1)**	0.20	0.11	0.01	(0.23)	0.05
Total	$ 2.43	$ 1.77	$ 1.62	$ 1.26	$ 1.61
Average Shares Outstanding	18,693	18,585	18,052	17,262	17,121
Average number of Diluted Shares Outstanding	18,837	18,736	18,188	17,394	17,177
Dividends Declared per Common Share	$ 1.100	$ 1.040	$ 1.010	$ 1.000	$ 0.955
Balance Sheet Information:					
Total Assets	$ 1,238,362	$ 1,192,035	$ 1,113,293	$ 1,061,287	$ 964,675
Common Shareholders Equity	408,666	377,541	359,430	310,503	302,129
Long-Term Debt	340,395	299,839	300,221	260,561	260,941
Total Capitalization	$ 749,061	$ 677,380	$ 659,651	$ 571,064	$ 563,070

(1) On June 7, 2010, AWR entered into a stock purchase agreement with EPCOR Water (USA) Inc. to sell all of the common shares of CCWC. The sale closed on May 31, 2011 and AWR recorded a gain on the sale (net of taxes and transaction costs) of approximately $2.2 million, or $0.12 per share. The results of CCWC for all periods included have been presented as a discontinued operation.

(2) In accordance with authoritative guidance for the effect of participating securities on earnings per share (EPS) calculations, AWR uses the two-class method of computing EPS for the effects of participating securities. AWR has participating securities related to stock options and stock units that earn dividend equivalents on an equal basis with Common Shares. Net income available for common shareholders excluding earnings available and allocated to participating securities was $45,548,000, $33,023,000, $29,399,000, $21,890,000 and $27,723,000 for the years ended December 31, 2011, 2010, 2009, 2008 and 2007, respectively.

(3) In 2010, results include a $16.6 million charge related to the impairment of assets and loss contingencies in connection with regulatory matters.

(4) In 2008, results include a $7.7 million goodwill impairment charge related to CCWC, in accordance with accounting guidance for goodwill and other intangible assets.

GOLDEN STATE WATER COMPANY (GSWC):

(in thousands)		2011		2010 (3)		2009		2008		2007
Income Statement Information:										
Total Operating Revenues	$	336,086	$	326,582	$	294,119	$	268,888	$	258,752
Total Operating Expenses		252,408		262,781		230,633		205,970		194,046
Operating Income		83,678		63,801		63,486		62,918		64,706
Interest Expense		23,292		21,215		21,398		19,651		20,063
Interest Income		801		1,914		898		1,774		2,111
Net Income	$	34,822	$	25,110	$	25,373	$	27,819	$	26,900
Balance Sheet Information:										
Total Assets	$	1,173,383	$	1,078,478	$	1,021,845	$	970,150	$	889,973
Common Shareholder s Equity		384,806		358,295		331,530		324,533		278,441
Long-Term Debt		340,395		299,839		300,221		260,561		260,941
Total Capitalization	$	725,201	$	658,134	$	631,751	$	585,094	$	539,382

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis provides information on AWR s consolidated operations and assets and where necessary, includes specific references to AWR s individual segments and/or other subsidiaries: GSWC, ASUS and its subsidiaries, or AWR s former subsidiary, CCWC. Included in the following analysis is a discussion of water and electric margins. Water and electric margins are computed by taking total revenues, less total supply costs. Registrant uses these margins and related percentages as an important measure in evaluating its operating results. Registrant believes this measure is a useful internal benchmark in evaluating the performance of GSWC. The discussions and tables included in the following analysis also present Registrant s operations in terms of earnings per share by business segment. Registrant believes that the disclosure of earnings per share by business segment provides investors with clarity surrounding the performance of our differing services and information that could be indicative of future performance for each business segment. Registrant reviews these measurements regularly and compares them to historical periods and to our operating budget as approved. However, these measures, which are not presented in accordance with Generally Accepted Accounting Principles (GAAP), may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income or earnings per share, which are determined in accordance with GAAP. A reconciliation of water and electric margins to the most directly comparable GAAP measures are included in the table under the section titled *Operating Expenses: Supply Costs* . Reconciliations to AWR s diluted earnings per share are included in the discussions under the sections titled *Summary Results by Segment.*

Overview

Registrant s revenues, operating income and cash flows are earned primarily through delivering potable water to homes and businesses, through our contracted services business for the operation and maintenance and renewal and replacement of water and/or wastewater systems for the U.S. government at various military bases, and through the delivery of electricity in the Big Bear area of San Bernardino County, California. Rates charged to GSWC customers are determined by the CPUC. These rates are intended to allow recovery of operating costs and a reasonable rate of return on capital. Factors affecting financial performance of GSWC include the process and timing of setting rates charged to customers; the ability to recover, and the process for recovering in rates, the costs of distributing water and electricity and our overhead costs; fines, penalties and disallowances by the CPUC arising from failures to comply with regulatory requirements; weather; the impact of increased water quality standards and environmental regulations 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 GSWC to protect its water supply.

Registrant plans to continue to seek additional rate increases in future years from the CPUC to recover operating and supply costs and receive reasonable returns on invested capital. Capital expenditures in future years at GSWC are expected to remain at much higher levels than depreciation expense. When necessary, Registrant obtains funds from external sources in the capital markets and through bank borrowings. On April 14, 2011, GSWC sold $62.0 million in aggregate principal amount of its 6% Notes. The Notes will mature on April 15, 2041. Interest on the Notes is payable semi-annually in arrears on April 15 and October 15, at the rate of 6% per annum. The Notes are unsecured and unsubordinated and rank equally with all of GSWC s unsecured and unsubordinated debt. The proceeds from the debt issuance were used to pay down short-term borrowings from AWR and other long-term debt with a higher interest rate, and to fund capital expenditures.

All of the current operation and maintenance contracts with the U.S. government are 50-year firm, fixed-price contracts with prospective price redeterminations. Additional revenues generated by contract operations are primarily dependent on new construction activities under contract modifications. As a result, ASUS is subject to risks that are different than those of GSWC. Factors affecting the financial performance of our Military Utility Privatization Subsidiaries include delays in receiving payments from the U.S. government and the redetermination and equitable adjustment of prices under the contracts with the U.S. government; fines, penalties or disallowance of costs by the federal government; and termination of contracts and suspension or debarment for a period of time from contracting with the federal government due to violations of federal law and regulations in connection with military utility privatization activities. Our financial performance is also dependent upon our ability to accurately estimate our costs in bidding on firm fixed price construction contracts and the costs of seeking new contracts for the operation and maintenance and renewal and replacement of water and/or wastewater services at military bases and for additional construction work at existing bases.

On May 31, 2011 AWR completed its sale of CCWC to EPCOR Water (USA) Inc. for a final purchase price of $35.2 million, including the assumption of approximately $5.6 million of long-term debt. AWR received approximately $29.6 million in cash, which was used primarily to pay down short-term borrowings. The sale generated a gain (net of taxes and transaction costs) of approximately $2.2 million.

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Summary Results by Segment

AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has two principal business units included in continuing operations: water and electric service utility operations conducted through GSWC, and contracted services conducted through ASUS and its subsidiaries. The results of operations of CCWC have been reported as discontinued operations.

The table below set forth diluted earnings per share by business segment for AWR s continuing operations:

	Diluted Earnings per Share Year Ended					
	12/31/2011		12/31/2010		CHANGE	
Water	$	1.66	$	1.19	$	0.47
Electric		0.18		0.11		0.07
Contracted services		0.38		0.38		
AWR (parent)		0.01		(0.02)		0.03
Totals from continuing operations, as reported	$	2.23	$	1.66	$	0.57

For the year ended December 31, 2011, fully diluted earnings per share contributed by water operations increased by $0.47 per share to $1.66 per share, as compared to $1.19 per share for the same period of 2010 due primarily to:

- An increase in the water margin of $7.9 million, or $0.25 per share, during the year ended December 31, 2011 compared to the same period of 2010 due primarily to CPUC-approved second year (escalation) rate increases for Regions II and III effective January 1, 2011, as well as new rates at Region I also effective January 1, 2011.

- A pretax charge of $16.6 million, or $0.55 per share, recorded in 2010, related to loss contingencies and impairment of assets resulting from regulatory matters associated with a CPUC investigation of certain construction projects and disallowance of costs by the CPUC.

- Excluding the charge discussed above, operating expenses (other than supply costs) increased by approximately $5.0 million, or $0.16 per share, due primarily to: (i) an increase in administrative and general expenses of $4.8 million primarily due to higher labor and pension costs as well as a change in allocation methodology causing higher amounts of costs from the general office, allocated to the water segment and less to electric; (ii) an increase in depreciation expense of $1.1 million resulting primarily from additions to utility plant, and (iii) a decrease of $512,000 in the pretax gain on the sale of property primarily due to the sale in 2010 of land that did not recur in 2011. These increases were partially offset by a $1.7 million decrease in other operation and maintenance expenses due to a decrease in water treatment and planned and unplanned maintenance costs.

- An increase in interest and other non-operating expenses (net of interest income) of $3.3 million, or $0.11 per share, due primarily to: (i) the issuance of $62.0 million in new long-term notes in April 2011, of which $22 million of the proceeds were used in May 2011 to redeem notes with higher interest rates, and (ii) interest income of $1.3 million recorded in 2010 related to a proposed settlement reached with the Internal Revenue Service related to AWR s refund claims associated with a tax-method change. There was no similar amount of interest income recorded in 2011.

- An increase in the effective income tax rate for the water segment during the year ended December 31, 2011 as compared to the same period in 2010, decreasing water earnings by approximately $0.06 per share, primarily resulting from changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements, and changes in other permanent items.

Diluted earnings from electric operations increased by $0.07 per share during the year ended December 31, 2011 primarily due to an increase in electric margin of $797,000, or $0.03 per share, as compared to the same period in 2010 reflecting rate increases approved by the CPUC, partially offset by a one-time $958,000 revenue increase for a CPUC approved general office allocation memorandum account recorded in 2010. In addition, a lower effective tax rate and lower other operating expenses due to less costs allocated from the general office to the electric segment, increased electric operations earnings by $0.04 per share during the year ended December 31, 2011.

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Diluted earnings from contracted services were $0.38 per share during the years ended December 31, 2011 and 2010. Included in earnings for the year ended December 31, 2010 was $6.8 million, or $0.21 per share, of revenues and interest income in connection with contract modifications received by ASUS subsidiaries from the U.S. government during 2010, which were retroactive. Excluding the impact of these contract modifications received in 2010, earnings from contracted services increased by $0.21 per share during the year ended December 31, 2011 primarily due to: (i) a change in estimated costs related to a pipeline project being completed at Fort Bragg, which resulted in an increase in pretax operating income of $2.9 million, or $0.09 per share, for work previously performed on the project, and (ii) an additional increase in construction margin of $4.1 million or $0.13 per share, due primarily to an overall increase in construction activities compared to 2010, particularly at Fort Bliss and Fort Bragg. These increases were partially offset by increased operating expenses in 2011.

Diluted earnings from AWR (parent) increased by $0.03 per share during the year ended December 31, 2011. There was a loss incurred on one of AWR s investments in 2010, which did not recur in 2011.

The tables below set forth summaries of the results by segment of continuing operations (amounts in thousands):

	Operating Revenues				Pretax Operating Income			
	Year Ended 12/31/2011	**Year Ended 12/31/2010**	**$ CHANGE**	**% CHANGE**	**Year Ended 12/31/2011**	**Year Ended 12/31/2010**	**$ CHANGE**	**% CHANGE**
Water	$ 299,806	$ 290,781	$ 9,025	3.1%	$ 76,661	$ 57,018	$ 19,643	34.5%
Electric	36,280	35,801	479	1.3%	6,661	5,680	981	17.3%
Contracted services	83,188	72,360	10,828	15.0%	11,855	11,487	368	3.2%
AWR parent					(73)	(366)	293	-80.1%
Totals from operation	$ 419,274	$ 398,942	$ 20,332	5.1%	$ 95,104	$ 73,819	$ 21,285	28.8%

Discontinued Operations:

Net income from discontinued operations for the year ended December 31, 2011 was $3.8 million, equivalent to $0.20 per common share on a basic and fully diluted basis, compared to $2.1 million or $0.11 per common share on a basic and fully diluted basis, for the year ended December 31, 2010, an increase of $0.09 per common share. The increase is due primarily to the gain on sale of CCWC of $2.2 million, net of taxes and transaction costs, or $0.12 per share. There was also a decrease in depreciation expense, which increased earnings by $0.03 per share, and a favorable decision issued by the Arizona Corporation Commission (ACC) on April 7, 2011, which resulted in the recording of approximately $959,000 of pretax income, or $0.03 per share. These increases were partially offset by the fact that the earnings for CCWC for 2011 include only five months of operations due to the sale of CCWC on May 31, 2011.

The following discussion and analysis for the years ended December 31, 2011, 2010 and 2009 provides information on AWR s consolidated operations and assets and where necessary, includes specific references to AWR s individual segments and/or other continuing subsidiaries: GSWC and ASUS and its subsidiaries, and the discontinued operations of CCWC.

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Consolidated Results of Operations — Years Ended December 31, 2011 and 2010 (amounts in thousands, except per share amounts):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 299,806	$ 290,781	$ 9,025	3.1%
Electric	36,280	35,801	479	1.3%
Contracted services	83,188	72,360	10,828	15.0%
Total operating revenues	419,274	398,942	20,332	5.1%
OPERATING EXPENSES				
Water purchased	47,530	46,865	665	1.4%
Power purchased for pumping	8,598	9,113	(515)	-5.7%
Groundwater production assessment	13,550	11,473	2,077	18.1%
Power purchased for resale	13,574	13,078	496	3.8%
Supply cost balancing accounts	18,748	20,622	(1,874)	-9.1%
Other operation expenses	28,841	29,184	(343)	-1.2%
Administrative and general expenses	75,144	87,135	(11,991)	-13.8%
Depreciation and amortization	38,349	37,405	944	2.5%
Maintenance	17,357	18,149	(792)	-4.4%
Property and other taxes	14,210	14,165	45	0.3%
ASUS construction expenses	48,397	38,577	9,820	25.5%
Net gain on sale of property	(128)	(643)	515	-80.1%
Total operating expenses	324,170	325,123	(953)	-0.3%
OPERATING INCOME	95,104	73,819	21,285	28.8%
OTHER INCOME AND EXPENSES				
Interest expense	(23,681)	(21,636)	(2,045)	9.5%
Interest income	859	2,406	(1,547)	-64.3%
Other	(196)	(463)	267	-57.7%
	(23,018)	(19,693)	(3,325)	16.9%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	72,086	54,126	17,960	33.2%
Income tax expense	30,076	23,035	7,041	30.6%
INCOME FROM CONTINUING OPERATIONS	42,010	31,091	10,919	35.1%
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	3,849	2,106	1,743	82.8%
NET INCOME	$ 45,859	$ 33,197	$ 12,662	38.1%
Basic earnings from continuing operations	$ 2.24	$ 1.67	$ 0.57	34.1%
Basic earnings from discontinued operations	0.20	0.11	0.09	81.8%
	$ 2.44	$ 1.78	$ 0.66	37.1%
Diluted earnings from continuing operations	$ 2.23	$ 1.66	$ 0.57	34.3%
Diluted earnings from discontinued operations	0.20	0.11	0.09	81.8%
	$ 2.43	$ 1.77	$ 0.66	37.3%

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Operating Revenues

General

Registrant relies upon rate approvals by the CPUC to recover operating expenses and to provide for a return on invested and borrowed capital used to fund utility plant for GSWC. Registrant relies on price redeterminations and equitable adjustments by the U.S. government in order to recover operating expenses and provide profit margin for ASUS. If adequate rate relief and price redeterminations and adjustments are not granted in a timely manner, operating revenues and earnings can be negatively impacted.

Water

For the year ended December 31, 2011, revenues from water operations increased by 3.1% to $299.8 million, compared to $290.8 million for the year ended December 31, 2010. The increase in water revenues is primarily due to rate increases approved by the CPUC at all GSWC water regions effective January 1, 2011.

Water consumption for the year ended December 31, 2011 decreased 1.9% compared to the same period in 2010. While water sales in 2011 continue to decline, earnings have not been negatively impacted by the reduction in water sales as GSWC has implemented a CPUC approved Water Revenue Adjustment Mechanism (WRAM) account in all three water regions as authorized by the CPUC. GSWC s revenue requirement and volumetric revenues will be adopted as part of a general rate case (GRC) every three years. GSWC filed a GRC for all three water regions in July of 2011 with rates expected to be effective January 2013.

Electric

For the year ended December 31, 2011, revenues from electric operations increased to $36.3 million compared to $35.8 million for 2010 due primarily to attrition year increases in electric rates approved by the CPUC effective January 1, 2011. The authorized rate increases provided BVES with additional annual revenues of approximately $2.0 million. The increase in rates was partially offset by the recording of $958,000 in revenue during the first quarter of 2010 that was included in a memorandum account approved by the CPUC which tracked the difference between the 2007 adopted general office cost allocation to BVES and the 1996 adopted general office cost allocation to BVES. There was no similar revenue recorded in 2011. In addition, total electric supply costs decreased by $318,000 during the year ended December 31, 2011, which reduced electric revenues by a corresponding amount, but had no impact on the dollar margin for electric services.

Electric usage for the year ended December 31, 2011 increased 1.6% compared to the same period in 2010. Due to the CPUC approved Base Revenue Requirement Adjustment Mechanism, which adjusts certain revenues to adopted levels, this change in usage did not have a significant impact on earnings.

Contracted Services

Revenues from contracted services consist primarily of construction revenues (including renewals and replacements) and management fees for operating and maintaining the water and/or wastewater systems at military bases. For the year ended December 31, 2011, revenues from contracted services increased by $10.8 million, or 15.0%, to $83.2 million as compared to $72.4 million for the year ended December 31, 2010.

For the year ended December 31, 2011, construction revenues increased by $16.8 million primarily due to an increase in construction activities at Fort Bliss and Fort Bragg. Additionally, as a result of a change in estimated costs by ONUS on a water and wastewater pipeline replacement project at Fort Bragg, an increase in operating income of approximately $2.9 million was recorded during the second quarter of 2011. The change in estimated costs was a result of successful negotiations to reduce the cost of construction work by contractors. In November 2011, the government also issued a contract modification to ODUS for a sewer rehabilitation project at Fort Lee that had been completed in the prior year. The contract modification provided for $545,000 of additional construction revenues for the year ended December 31, 2011.

Management fee revenues decreased by $6.0 million for the year ended December 31, 2011. This is primarily due to $6.3 million in management fees received in 2010 in connection with requests for equitable adjustment (REAs) and contract modifications resolved with the U.S. government that were retroactive. The effect of these REAs and contract modifications were partially offset by the receipt of a contract modification in connection with the first price redetermination for certain of the military bases in Virginia. As a result of the modification, during the third quarter of 2011, ASUS recorded $461,000 in additional management fees retroactive from April 2008. Excluding the retroactive portion of these REAs, management fees for the year ended December 31, 2011 were comparable to the same period in 2010.

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Operating Expenses:

Supply Costs

Supply costs for the water segment consist of purchased water, purchased power for pumping, groundwater production assessments and water supply cost balancing accounts. Supply costs for the electric segment consist of power purchased for resale, the cost of natural gas used by BVES during peak time and the electric supply cost balancing account. Water and electric margins are computed by taking total revenues, less total supply costs. Registrant uses these margins and related percentages as an important measure in evaluating its operating results. Registrant believes this measure is a useful internal benchmark in evaluating the utility business performance within its water and electric segments. Registrant reviews these measurements regularly and compares them to historical periods and to its operating budget as approved. However, this measure, which is not presented in accordance with GAAP, may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income, which is determined in accordance with GAAP.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for 31.5% and 31.1% of total operating expenses for the year ended December 31, 2011 and 2010, respectively.

The table below provides the amount of increases (decreases), percent changes in supply costs, and margins during the years ended December 31, 2011 and 2010 (amounts in thousands):

		Year Ended 12/31/2011		**Year Ended 12/31/2010**		**$ CHANGE**	**% CHANGE**
WATER OPERATING REVENUES **(1)**	$	299,806	$	290,781	$	9,025	3.1%
WATER SUPPLY COSTS:							
Water purchased **(1)**		47,530		46,865		665	1.4%
Power purchased for pumping **(1)**		8,598		9,113		(515)	-5.7%
Groundwater production assessment **(1)**		13,550		11,473		2,077	18.1%
Water supply cost balancing accounts **(1)**		16,565		17,625		(1,060)	-6.0%
TOTAL WATER SUPPLY COSTS	$	86,243	$	85,076	$	1,167	1.4%
WATER MARGIN **(2)**	$	213,563	$	205,705	$	7,858	3.8%
PERCENT MARGIN - WATER		71.2%		70.7%			
ELECTRIC OPERATING REVENUES **(1)**	$	36,280	$	35,801	$	479	1.3%
ELECTRIC SUPPLY COSTS:							
Power purchased for resale **(1)**		13,574		13,078		496	3.8%
Electric supply cost balancing accounts **(1)**		2,183		2,997		(814)	-27.2%
TOTAL ELECTRIC SUPPLY COSTS	$	15,757	$	16,075	$	(318)	-2.0%
ELECTRIC MARGIN **(2)**	$	20,523	$	19,726	$	797	4.0%
PERCENT MARGIN - ELECTRIC		56.6%		55.1%			

(1) As reported on AWR s Consolidated Statements of Income, except for supply cost balancing accounts. The sum of water and electric supply cost balancing accounts in the table above is shown on AWR s Consolidated Statements of Income and totaled $18,748,000 and $20,622,000 for the years ended December 31, 2011 and 2010, respectively.

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

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Two of the principal factors affecting water supply costs are the amount of water produced and the source of the water. Generally, the variable cost of producing water from wells is less than the cost of water purchased from wholesale suppliers. As approved by the CPUC, GSWC has implemented a modified cost balancing account or MCBA that allows recovery of supply costs due to changes in water supply mix or volume. Under the MCBA, GSWC began tracking adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. Variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power, and pump tax expenses are recorded as a component of the supply cost balancing account provision. The amount of such variances will be recovered from or refunded to GSWC s customers at a later date. This is reflected with an offsetting entry to a regulatory asset or liability balancing account (tracked individually for each water ratemaking area).

For the year ended December 31, 2011, 34.5% of GSWC s water supply mix was purchased as compared to 34.7% purchased for the year ended December 31, 2010. As previously discussed, variances between adopted and actual purchased water, purchased power, and pump tax expenses are recorded as a component of the supply cost balancing account provision. The overall adopted percentages of purchased water for the years ended December 31, 2011 and 2010 was approximately 41%, as compared to the actual of 34.5% and 34.7%, respectively. The improvement in actual mix compared to the mix approved by the CPUC resulted in an over-collection in the MCBA account. The overall water margin percent was 71.2% for the year ended December 31, 2011 as compared to 70.7% in the same period of 2010.

Purchased water costs for the year ended December 31, 2011 increased by 1.4% to $47.5 million as compared to $46.9 million in 2010. The increase in purchased water costs was due to higher water rates charged by wholesale suppliers, partially offset by lower customer usage. GSWC s customer water usage decreased 1.9% in 2011 as compared to 2010.

For the year ended December 31, 2011, power purchased for pumping decreased to $8.6 million, compared to $9.1 million for 2010. This was due to lower customer demand, partially offset by increases in supplier rates.

For the year ended December 31, 2011, groundwater production assessments were $13.6 million in 2011, as compared to $11.5 million in 2010 due to additional assessment rates levied and an increase in purchasing replenishment water. There were also changes in the actual supply mix, as discussed above. Due to the MCBA account, these additional assessments do not impact the water margin. The MCBA tracks the increases in pump tax rates for future recovery in water rates.

There was a $1.1 million decrease in the water supply cost balancing account provision during the year ended December 31, 2011 as compared to 2010 due to a $1.4 million decrease in the MCBA as a result of higher water rates charged by wholesale suppliers, as noted above. This decrease in the MCBA was partially offset by an increase of $300,000 in the amortization of the water supply cost balancing accounts for previously under-collected balances, primarily from Region I.

For the year ended December 31, 2011, the cost of power purchased for resale to customers in GSWC s BVES division increased by 3.8% to $13.6 million compared to $13.1 million for the year ended December 31, 2010 due to an increase in customer usage of 1.6%. The main product under GSWC s current power purchase contract provides for 13 megawatts of electric energy at a fixed price of $67.75 per megawatt-hour (MWh) during 2011 as compared to $67.85 during 2010. Through August 31, 2011, the difference between the price of purchased power and $77 per MWh, the maximum recoverable amount as authorized by the CPUC, was reflected in the electric supply cost balancing account. Effective September 1, 2011, BVES is no longer subject to the $77 per MWh weighted annual average cost and is able to include amounts above the $77 per MWh average in its supply cost balancing account.

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Other Operation Expenses

The primary components of other operation expenses include payroll, materials and supplies, chemicals and water treatment, and outside service costs of operating the regulated water systems, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing, and operations of district offices. Registrant s electric and contracted services operations incur many of the same types of costs as well. For the years ended December 31, 2011 and 2010, other operation expenses by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
Water Services	$ 22,853	$ 23,388	$ (535)	-2.3%
Electric Services	2,275	2,220	55	2.5%
Contracted Services	3,713	3,576	137	3.8%
Total other operation expenses	$ 28,841	$ 29,184	$ (343)	-1.2%

For the year ended December 31, 2011, other operation expenses for water services decreased by $535,000, or 2.3%, primarily due to decreases in water conservation and treatment costs, attributable to a combination of lower water consumption by our customers, wells out of service in some areas, and efficiencies in operations. This decrease was partially offset by an increase in outside service costs and in billing supplies costs to convert to monthly billing in various GSWC service areas.

Other operation expenses for contracted services increased by $137,000 due primarily to higher labor costs of $480,000, partially offset by a decrease in outside service costs of $350,000. The increase in labor costs was primarily due to precontract costs for design and engineering labor incurred by ONUS for Fort Bragg in North Carolina and FBWS for Fort Bliss in Texas for potential new construction projects. These expenses were incurred in connection with the preparation and submission of proposals for potential construction work.

Administrative and General Expenses

Administrative and general expenses include payroll expenses related to administrative and general functions, the related employee benefits charged to expense accounts, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company, and general corporate expenses. For the years ended December 31, 2011 and 2010, administrative and general expenses by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
Water Services	$ 52,885	$ 64,716	$ (11,831)	-18.3%
Electric Services	7,865	7,950	(85)	-1.1%
Contracted Services	14,321	14,103	218	1.5%
AWR (parent)	73	366	(293)	-80.1%
Total administrative and general expenses	$ 75,144	$ 87,135	$ (11,991)	-13.8%

For the year ended December 31, 2011, administrative and general expenses decreased by $11.8 million in water services compared to the year ended December 31, 2010 due primarily to a $16.6 million pretax charge recorded in 2010 for the impairment of assets and loss contingencies related to regulatory matters. Excluding this charge, administrative and general expenses increased by $4.8 million due to increases in: (i) labor and other employee related benefits, including pension costs, of $3.5 million; (ii) consulting and other outside service costs of $794,000,and (iii) other miscellaneous administrative and general costs of approximately $500,000, primarily due to higher allocations from corporate headquarters due to a change in allocation methodology causing higher amounts allocated to the water segment and less to electric.

There was an increase of $218,000 in administrative and general expenses for contracted services due primarily to an increase in insurance and communication charges, partially offset by a decrease in legal and consulting costs.

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Depreciation and Amortization

For the years ended December 31, 2011 and 2010, depreciation and amortization by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
Water Services	$ 35,450	$ 34,360	$ 1,090	3.2%
Electric Services	2,011	2,240	(229)	-10.2%
Contracted Services	888	805	83	10.3%
Total depreciation and amortization	$ 38,349	$ 37,405	$ 944	2.5%

For the year ended December 31, 2011, depreciation and amortization expense for water services increased by $1.1 million to $35.5 million compared to $34.4 million for the year ended December 31, 2010. This is primarily due to approximately $68.1 million of additions to water utility plant in 2010. This increase was partially offset by an increase in asset retirements and fully depreciated assets compared to 2010.

For the year ended December 31, 2011, depreciation and amortization expense for electric services decreased by $229,000 to $2.0 million compared to $2.2 million for year ended December 31, 2010. This is primarily due to an increase in asset retirements and fully depreciated assets compared to 2010.

Registrant anticipates that depreciation expense for water and electric services will increase in the future due to ongoing construction at GSWC. Registrant believes that the depreciation expense related to property additions approved by the CPUC will be recovered through rates.

There was an increase in depreciation and amortization expense for contracted services due primarily to the addition of fixed assets.

Maintenance

For the years ended December 31, 2011 and 2010, maintenance expense by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
Water Services	$ 13,817	$ 15,011	$ (1,194)	-8.0%
Electric Services	885	830	55	6.6%
Contracted Services	2,655	2,308	347	15.0%
Total maintenance	$ 17,357	$ 18,149	$ (792)	-4.4%

For the year ended December 31, 2011, maintenance expense for water services decreased by $1.2 million to $13.8 million compared to $15.0 million for the year ended December 31, 2010 due primarily to a reduction in planned maintenance as well as decreased unplanned maintenance.

For the year ended December 31, 2011, maintenance expense for contracted services increased by $347,000 due primarily to an increase of $263,000 in labor costs.

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Property and Other Taxes

For the years ended December 31, 2011 and 2010, property and other taxes by segment, consisted of the following (amounts in thousands):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
Water Services	$ 12,025	$ 11,855	$ 170	1.4%
Electric Services	826	806	20	2.5%
Contracted Services	1,359	1,504	(145)	-9.6%
Total property and other taxes	$ 14,210	$ 14,165	$ 45	0.3%

For the year ended December 31, 2011, property and other taxes for water and electric services increased by $190,000, or 1.5%, primarily due to an increase in payroll taxes.

Property and other taxes were lower for contracted services due to a decrease in gross receipt taxes as a result of an approved request for equitable adjustment recorded in the first quarter of 2010 by ONUS at Fort Bragg in North Carolina, which was subject to gross receipt taxes in 2010.

ASUS Construction Expenses

For the year ended December 31, 2011, ASUS construction expenses were $48.4 million, an increase of $9.8 million compared to the same period in 2010. This was primarily due to additional construction projects at FBWS for Fort Bliss in Texas and at ONUS for Fort Bragg in North Carolina.

Net Gain on Sale of Property

For the year ended December 31, 2010, Registrant recorded a pretax gain of $643,000 primarily for the sale of a piece of property in the water services segment, compared to only $128,000 pretax gain on a sale of property in 2011.

Interest Expense

For the years ended December 31, 2011 and 2010, interest expense by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
Water Services	$ 21,739	$ 19,698	$ 2,041	10.4%
Electric Services	1,553	1,498	55	3.7%
Contracted Services	376	287	89	31.0%
AWR (parent)	13	153	(140)	-91.5%
Total interest expense	$ 23,681	$ 21,636	$ 2,045	9.5%

Overall, interest expense increased by $2.0 million due primarily to the issuance on April 14, 2011 of $62.0 million of 6% senior notes due 2041. A portion of the proceeds was used to redeem $22.0 million of senior notes with a higher interest rate and the remaining proceeds were used to pay down short-term borrowings and fund capital expenditures.

The average interest rate on short term borrowing for the year ended December 31, 2011 was 1.5% compared to an average of 1.4% during the same period in 2010. Average bank loan balances outstanding under AWR s credit facility for the year ended December 31, 2011 were approximately $25.7 million, as compared to an average of $37.6 million during the same period of 2010.

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Interest Income

For the years ended December 31, 2011 and 2010, interest income by segment, including AWR (parent) consisted of the following (amounts in thousands):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
Water Services	$ 749	$ 1,895	$ (1,146)	-60.5%
Electric Services	52		52	100.0%
Contracted Services	4	511	(507)	-99.2%
AWR (parent)	54		54	100.0%
Total interest income	$ 859	$ 2,406	$ (1,547)	-64.3%

Interest income decreased by $1.5 million for the year ended December 31, 2011 primarily due to interest on AWR s tax refund claims recorded in 2010, as well as interest income related to a Fort Bliss inventory price adjustment received in 2010, both which did not recur in 2011.

Other

For the year ended December 31, 2011, other expenses decreased by $267,000 primarily as a result of losses incurred on one of Registrant s investments during 2010, partially offset by losses on investments held in a Rabbi Trust for the Supplemental Executive Retirement Plan during 2011.

Income Tax Expense

For the years ended December 31, 2011 and 2010, income tax expense by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2011	Year Ended 12/31/2010	$ CHANGE	% CHANGE
Water Services	$ 24,006	$ 16,593	$ 7,413	44.7%
Electric Services	1,820	2,041	(221)	-10.8%
Contracted Services	4,431	4,535	(104)	-2.3%
AWR (parent)	(181)	(134)	(47)	35.1%
Total income tax expense	$ 30,076	$ 23,035	$ 7,041	30.6%

For the year ended December 31, 2011, income tax expense for water and electric services increased to $25.8 million compared to $18.6 million for the same period in 2010 due primarily to an increase in pretax income. The effective tax rate (ETR) for GSWC for the year ended December 31, 2011 was 42.7% as compared to a 43.2% ETR applicable to the same period of 2010. The ETR deviates from the federal statutory rate primarily due to state taxes and changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (principally plant-, rate case- and compensation-related items) and other nondeductible permanent items. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase occurring in another period.

Income tax expense for contracted services decreased to $4.4 million compared to $4.5 million due primarily to a slight decrease in pretax income. The ETR for contracted services for the year ended December 31, 2011 was 38.6% as compared to a 38.7% ETR applicable to the year ended December 31, 2010.

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Income from Discontinued Operations

On May 31, 2011, AWR completed its sale of CCWC to EPCOR Water (USA), Inc. for a final purchase price of $35.2 million, including the assumption of approximately $5.6 million of long-term debt. The transaction closed on May 31, 2011 and AWR received approximately $29.6 million in cash and recorded a gain on sale, net of taxes and transaction costs, of approximately $2.2 million.

Net income from discontinued operations for the year ended December 31, 2011 increased to $3.8 million compared to net income of $2.1 million for the same period in 2010. The 2011 financial results for CCWC represent activity for the five months ended May 31, 2011. Excluding the gain, there was also a favorable decision issued by the ACC on April 7, 2011, which resulted in the recording of approximately $959,000 of pretax income consisting primarily of a $760,000 gain pertaining to settlement proceeds received for the removal of a well from operations in 2005.

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Consolidated Results of Operations Years Ended December 31, 2010 and 2009 (amounts in thousands, except per share amounts):

	Year Ended 12/31/2010	Year Ended 12/31/2009	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 290,781	$ 265,197	$ 25,584	9.6%
Electric	35,801	28,922	6,879	23.8%
Contracted services	72,360	59,132	13,228	22.4%
Total operating revenues	398,942	353,251	45,691	12.9%
OPERATING EXPENSES				
Water purchased	46,865	44,973	1,892	4.2%
Power purchased for pumping	9,113	9,658	(545)	-5.6%
Groundwater production assessment	11,473	11,563	(90)	-0.8%
Power purchased for resale	13,078	12,853	225	1.8%
Supply cost balancing accounts	20,622	12,434	8,188	65.9%
Other operation expenses	29,184	28,808	376	1.3%
Administrative and general expenses	87,135	69,051	18,084	26.2%
Depreciation and amortization	37,405	31,531	5,874	18.6%
Maintenance	18,149	17,012	1,137	6.7%
Property and other taxes	14,165	12,824	1,341	10.5%
ASUS construction expenses	38,577	33,717	4,860	14.4%
Net gain on sale of property	(643)	(15)	(628)	4186.7%
Total operating expenses	325,123	284,409	40,714	14.3%
OPERATING INCOME	73,819	68,842	4,977	7.2%
OTHER INCOME AND EXPENSES				
Interest expense	(21,636)	(21,899)	263	-1.2%
Interest income	2,406	911	1,495	164.1%
Other	(463)	221	(684)	-309.5%
	(19,693)	(20,767)	1,074	-5.2%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	54,126	48,075	6,051	12.6%
Income tax expense	23,035	18,701	4,334	23.2%
INCOME FROM CONTINUING OPERATIONS	31,091	29,374	1,717	5.8%
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	2,106	157	1,949	1241.4%
NET INCOME	$ 33,197	$ 29,531	$ 3,666	12.4%
Basic earnings from continuing operations	$ 1.67	$ 1.62	$ 0.05	3.1%
Basic earnings from discontinued operations	0.11	0.01	0.10	1000.0%
	$ 1.78	$ 1.63	$ 0.15	9.2%
Diluted earnings from continuing operations	$ 1.66	$ 1.61	$ 0.05	3.1%
Diluted earnings from discontinued operations	0.11	0.01	0.10	1000.0%
	$ 1.77	$ 1.62	$ 0.15	9.3%

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Net income from continuing operations for the year ended December 31, 2010 was $31.1 million, equivalent to $1.67 and $1.66 per common share on a basic and fully diluted basis, respectively, compared to $29.4 million, or $1.62 and $1.61 per common share on a basic and fully diluted basis, respectively for the year ended December 31, 2009.

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

	Diluted Earnings per Share Year Ended 12/31/2010	12/31/2009	CHANGE
Water	$ 1.19	$ 1.43	$ (0.24)
Electric	0.11	(0.07)	0.18
Contracted services	0.38	0.21	0.17
AWR (parent)	(0.02)	0.04	(0.06)
Totals from continuing operations, as reported	$ 1.66	$ 1.61	$ 0.05

For the year ended December 31, 2010, diluted earnings per share contributed by water operations decreased by $0.24 to $1.19 per share, as compared to $1.43 per share for the same period of 2009 due primarily to:

- A pretax charge of $16.6 million, or $0.55 per share, for loss contingencies and impairment of assets resulting from regulatory matters associated with a CPUC investigation of certain construction projects and the disallowance of costs by the CPUC in the Region II, Region III, and general office rate case.

- Excluding the pretax charge for the impairment of assets and loss contingencies discussed above, operating expenses, other than supply costs, increased by $5.5 million, or $0.18 per share for the year ended December 31, 2010. The increase was primarily due to an increase in: (i) administrative and general expenses of $4.4 million, primarily due to higher labor and employee related costs; (ii) depreciation and amortization expenses of $5.8 million; (iii) maintenance and other operating expenses of $1.6 million, and (iv) property and other taxes of $1.0 million. These increases were partially offset by: (i) a $3.8 million pretax charge during the fourth quarter of 2009 related to legal and settlement costs in connection with a settlement agreement reached between the Company and two former officers that did not recur in 2010; (ii) a decrease in pension expense of $2.9 million largely due to the effect of implementing a two-way pension balancing account at GSWC s water regions, and (iii) an increase of $628,000 in pretax gain on the sale of property primarily due to the sale in 2010 of a well in one of GSWC s water regions.

- An increase in income tax expense for the year ended December 31, 2010 as compared to the same period in 2009 was primarily due to an increase in the effective tax rate (excluding a tax benefit recorded in 2009 in connection with a change in enacted tax law) for the year ended December 31, 2010 as compared to the same period in 2009, negatively impacting earnings by $0.04 per share; the increase primarily resulted from changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements and other nondeductible permanent items.

These increases were partially offset by:

- An increase in the water margin of $16.0 million, or $0.51 per share, during the year ended December 31, 2010 compared to the same period of 2009 was due primarily to higher water rates approved by the CPUC effective January 1, 2010 in the Region II, Region III and general office rate case. CPUC-approved revenue increases for 2010 totaled approximately $33.0 million as compared to 2009 adopted revenues; the increase included $14.0 million for supply costs and the increase was retroactive to January 1, 2010.

- An increase in interest and other non-operating income (net of interest expense) of $980,000, or $0.02 per share, was primarily related to a proposed settlement reached with the Internal Revenue Service related to AWR s refund claims associated with a tax-method change.

Diluted earnings from electric operations increased by $0.18 per share for the year ended December 31, 2010 compared to the same period in 2009 primarily due to an increase in the electric margin of $6.8 million, or $0.21 per share, during the year ended December 31, 2010 as compared to the same period of 2009. The increase was primarily due to: (i) increases in rates in November 2009 and January 2010 related to BVES general rate case approved by the CPUC which generated an increase of approximately $5.7 million in revenues; (ii) the recording of additional revenues in the BRRAM due to lower customer usage as compared to adopted levels authorized by the CPUC; and (iii) the CPUC approval in March 2010 of recovery of $958,000 in a memorandum account which tracked the difference between the 2007 adopted general office cost allocation to BVES and the 1996 adopted general office cost allocation to BVES. The increase in electric margin was partially offset by an increase in operating and interest expenses totaling $846,000, or $0.03 per share.

Diluted earnings per share for contracted services increased $0.17 per share to $0.38 per share for the year ended December 31, 2010, primarily due to the recording of $6.1 million, or $0.19 per share of revenue and interest income in connection with contract modifications received from the U.S. Government during the first quarter of 2010. This increase in revenue was partially offset by an increase in income tax expense as a result of an increase in the effective tax rate as well as an increase in legal and other administrative expenses, negatively impacting earnings by $0.02 per share.

Net income from discontinued operations for the year ended December 31, 2010 was $2.1 million, equivalent to $0.11 per common share on a fully diluted basis, compared to net income of $157,000 or $0.01 per common share on a basic and fully diluted basis, for the year ended December 31, 2009, an increase of $0.10 per common share. The improved performance at CCWC was primarily due to rate increases approved by the Arizona Corporation Commission in October 2009 and a decrease in operating expenses as compared to 2009.

Diluted earnings per share from AWR (parent) decreased by $0.06 per share for the year ended December 31, 2010 primarily due to a change in state tax law in 2009, which resulted in the recording of a benefit of approximately $918,000, or $0.05 per share, during the first quarter of 2009. There was no similar benefit recorded in 2010.

Operating Revenues

Water

For the year ended December 31, 2010, revenues from water operations increased by 9.6% to $290.8 million, compared to $265.2 million for the year ended December 31, 2009. As previously discussed, the final decision in the Region II, Region III and general office rate case increased water revenues by $33.0 million as compared to the 2009 adopted revenue levels. Revenues also increased in 2010 as a result of the impact of a full year of the Water Revenue Adjustment Mechanism or WRAM in effect at Region I, which was implemented in September 2009. These increases were partially offset by the recording of $3.1 million in the Water Conservation Memorandum Accounts for GSWC s water regions in 2009 and $4.3 million in surcharges in effect that were approved by the CPUC to recover previously incurred under-collections in supply costs, both of which were not part of the original 2009 adopted revenues.

While water sales in 2010 continued to be impacted by state wide conservation and rationing efforts, earnings were not negatively impacted by the reduction in water sales as GSWC had implemented the WRAM in all three water regions as authorized by the CPUC. During 2010, consumption was lower by 8.4% as compared to 2009. GSWC s revenue requirement and volumetric revenues will be adopted as part of a general rate case (GRC) every three years. The Region II, Region III and general office rates are effective for years 2010, 2011 and 2012. On December 16, 2010, the CPUC issued a final decision on GSWC s Region I GRC for new rates in 2011 and 2012. GSWC filed a GRC for all three water regions in July of 2011 with rates expected to be effective January 2013.

Electric

For the year ended December 31, 2010, revenues from electric operations increased by 23.8% to $35.8 million compared to $28.9 million for the year ended December 31, 2009 due primarily to rate increases implemented in November 2009 and January 2010 as approved by the CPUC, which added approximately $5.7 million in electric revenues in 2010, and the implementation of the Base Revenue Requirement Adjustment Mechanism, adopted in November 2009. Also, as previously discussed, in March 2010, the CPUC approved for recovery a memorandum account which tracked the difference between the 2007 adopted general office cost allocation to BVES and the 1996 adopted general office cost allocation, effective and retroactive from June 4, 2009 to October 31, 2009. As a result, during the first quarter of 2010, BVES recorded a $958,000 increase to electric revenues for amounts included in this memorandum account.

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Contracted Services

For the year ended December 31, 2010, revenues from contracted services increased by $13.2 million, or 22.4%, to $72.4 million compared to $59.1 million for the year ended December 31, 2009 due to: (i) an increase of $8.1 million in management fees, and (ii) an increase of $5.1 million in construction revenues.

For the year ended December 31, 2010, management fees increased by $8.1 million due primarily to contract modifications received from the U.S. government for operating and maintaining the water and wastewater systems at Fort Bliss and Fort Bragg that resulted in the recording of management fees totaling $5.6 million, which were retroactive from the commencement of the contracts in October 2004 and March 2008, respectively, through December 31, 2009. The increased fees established by the contract modification for Fort Bragg added an additional $1.5 million in revenues related to 2010. There was also an increase in management fees at Andrews Air Force Base due primarily to the execution of a contract modification in August 2010 which provided for an interim adjustment pending resolution of the first price redetermination. As a result, there was a retroactive adjustment in management fees to February 2008, the first redetermination date, of approximately $700,000 which was recorded during the third quarter of 2010. Some or the entire amount of the increase for Andrews Air Force Base may be subject to refund depending on the outcome of the negotiations on the price redetermination for this base. Finally, there was an increase in management fees of $782,000 related to a contract with a municipality to provide billing and meter reading services. This contract terminated on April 1, 2011.

For the year ended December 31, 2010, construction revenues increased by $5.1 million due primarily to an increase in construction activities at Fort Bragg in North Carolina and Fort Jackson in South Carolina, partially offset by decreases in construction revenues at the other military bases.

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Operating Expenses:

Supply Costs

Supply costs for the water segment consist of purchased water, purchased power for pumping, groundwater production assessments and water supply cost balancing accounts. Supply costs for the electric segment consist of purchased power for resale, the cost of natural gas used by BVES during peak time and the electric supply cost balancing account. Water and electric margins are computed by taking total revenues, less total supply costs. Registrant uses these margins and related percentages as an important measure in evaluating its operating results. Registrant believes this measure is a useful internal benchmark in evaluating the utility s business performance within its water and electric segments. Registrant reviews these measurements regularly and compares them to historical periods and to our operating budget as approved. However, this measure, which is not presented in accordance with GAAP, may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income, which is determined in accordance with GAAP.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for 31.1% and 32.2% of total operating expenses for the year ended December 31, 2010 and 2009, respectively.

The table below provides the amount of increases (decreases), percent changes in supply costs, and margins during the years ended December 31, 2010 and 2009 (amounts in thousands):

		Year Ended 12/31/2010		**Year Ended 12/31/2009**		**$ CHANGE**	**% CHANGE**
WATER OPERATING REVENUES **(1)**	$	290,781	$	265,197	$	25,584	9.6%
WATER SUPPLY COSTS:							
Water purchased **(1)**		46,865		44,973		1,892	4.2%
Power purchased for pumping **(1)**		9,113		9,658		(545)	-5.6%
Groundwater production assessment **(1)**		11,473		11,563		(90)	-0.8%
Water supply cost balancing accounts **(1)**		17,625		9,296		8,329	89.6%
TOTAL WATER SUPPLY COSTS	$	85,076	$	75,490	$	9,586	12.7%
WATER MARGIN **(2)**	$	205,705	$	189,707	$	15,998	8.4%
PERCENT MARGIN - WATER		70.7%		71.5%			
ELECTRIC OPERATING REVENUES **(1)**	$	35,801	$	28,922	$	6,879	23.8%
ELECTRIC SUPPLY COSTS:							
Power purchased for resale **(1)**		13,078		12,853		225	1.8%
Electric supply cost balancing accounts **(1)**		2,997		3,138		(141)	-4.5%
TOTAL ELECTRIC SUPPLY COSTS	$	16,075	$	15,991	$	84	0.5%
ELECTRIC MARGIN **(2)**	$	19,726	$				