AMERICAN STATES WATER CO
Form DEF 14A
March 29, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant **x**
Filed by a Party other than the Registrant **o**

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-12

American States Water Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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4. Date Filed:

Notice of the 2004 Annual Meeting of Shareholders and the 2004 Proxy Statement

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Notice of the Annual Meeting of Shareholders

Meeting Date	Tuesday, May 11, 2004
Meeting Time	10:00 a.m., Pacific Time
Meeting Location	Shilo Hilltop Suites 3101 Temple Avenue Pomona, CA 91768
Record Date	March 18, 2004

Agenda

- To elect four Class II directors to the Board of Directors of the Company to serve until their successors are elected and qualified
- To approve the 2003 Non-Employee Directors Stock Plan
- To ratify the Appointment of PricewaterhouseCoopers LLP as the Independent Auditors
- To transact any other business, which may properly come before the meeting or any adjournment thereof

The Board of Directors has nominated the following individuals for election as Class II directors: Jean E. Auer, N.P. Dodge, Jr., Robert F. Kathol, and Lloyd E. Ross.

By order of the Board of Directors,

McClellan Harris III
Secretary

San Dimas, California
April 2, 2004

Information about Attending

We will hold the Annual Meeting at the Shilo Hilltop Suites, 3101 Temple Avenue in Pomona, California 91768.

Shareholders must present a ticket to be admitted to the Annual Meeting. For shareholders of record, your admission ticket is the detachable portion of your proxy form. Please have your ticket out and available when you reach the registration area at the Annual Meeting.

For shareholders who hold shares through a brokerage firm, bank or other holder of record, your ticket is the copy of your latest account statement showing your American States Water Company investment. Please present your account statement to the registration area at the Annual Meeting. You will not, however, be entitled to vote your shares at the Annual Meeting, unless you have obtained a legal proxy from your broker, bank or other shareholder of record. A copy of your account statement is not sufficient for this purpose.

Directions to the Shilo Hilltop Suites Pomona

April 2, 2004

2004 Proxy Statement

General Information

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of American States Water Company (the Company) of proxies to be voted at the Annual Meeting of Shareholders of the Company (the Annual Meeting) and any adjournments thereof. This statement and the accompanying proxy are being sent to shareholders on or about April 2, 2004.

At the Annual Meeting, shareholders will be asked to elect four Class II directors to serve until the Annual Meeting of Shareholders held in 2006 and until their successors are elected and qualified.

Shareholders will also be asked to approve the establishment of the 2003 Non-Employee Directors Stock Plan. Shareholders may also be asked to ratify the appointment of PricewaterhouseCoopers LLP as Independent Auditors and to vote on any other matter which may properly come before the Annual Meeting or any adjournment thereof, including any proposal to adjourn the Annual Meeting. Whether or not you intend to be present at the Annual Meeting, you are urged to complete, sign and return your proxy promptly.

Solicitation of Proxy and Revocability; Voting Securities

Date, Time and Place of Annual Meeting
The Annual Meeting will be held on May 11, 2004 at 10:00 a.m., Pacific Time, at the Shilo Hilltop Suites, 3101 Temple Avenue, Pomona, California.

Record Date and Voting Rights
Only holders of record of the Company s voting securities at the close of business on March 18, 2004 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. At the Record Date, the Company had 15,232,017 Common Shares outstanding. Each Common Share is entitled to one vote.

Votes cast by proxy or in person at the Annual Meeting will be counted by an inspector of election appointed by the Board of Directors to act as an election inspector for the Annual Meeting. Shares represented by proxies that reflect abstentions will be treated as present and entitled to vote for purposes of determining the presence of a quorum. Abstentions, however, will not constitute a vote for or against any matter.

The inspector of election will treat shares referred to as broker non-votes (i.e., shares held by brokers or nominees as to which instructions have not been received from the beneficial owners or persons entitled to vote and as to which the broker has physically indicated on the proxy that the broker or nominee does not have discretionary power to vote on a particular matter) as shares that are present and entitled to vote for purposes of determining the presence of a quorum. However, broker non-votes will not constitute a vote for or against any matter as to which the broker has physically indicated on the proxy that it does not have discretionary authority to vote (even though those shares are considered present for quorum purposes and may be entitled to vote on other matters). Any unmarked proxies, including those submitted by brokers or nominees, will be voted as indicated in the accompanying proxy card.

In the election of directors, the candidates for election receiving the highest number of affirmative votes of the shares entitled to be voted for them, up to the number of directors to be elected, will be elected. Votes cast against a candidate or votes withheld will have no legal effect. No shareholder will be entitled to cumulate votes (i.e., cast for any candidate a number of votes greater than the number of Common Shares held of record by such shareholder) unless such candidate s name has been placed in nomination prior to the voting and the shareholder has given notice at the meeting, prior to the voting, of the shareholder s intention to cumulate the shareholder s votes. If any one shareholder has given such notice, all shareholders may cumulate their votes for candidates who have been nominated. If voting for directors is conducted by cumulative voting, each share will be entitled to the number of votes equal to the number of directors authorized times the number of votes to which such share is otherwise entitled, which votes may be cast for a single candidate or may be distributed among two or more candidates in whatever proportion the shareholder may desire. The accompanying proxy card will grant the named proxies discretionary authority to vote

cumulatively, if cumulative voting applies. In such event, unless otherwise instructed, the named proxies intend to vote equally FOR each of the three candidates for the office of director; provided, however, that if sufficient numbers of the Company s shareholders exercise cumulative voting rights to elect one or more candidates, the named proxies will determine the number of directors they are entitled to elect, select such number from among the named candidates, cumulate their votes, and cast their votes for each candidate among the number they are entitled to elect. If voting is not conducted by cumulative voting, each Common Share will be entitled to one vote, and shareholders having a majority of the voting power exercised at the meeting will be able to elect all of the directors if they choose to do so. In that event, the other shareholders will be unable to elect any director or directors.

A majority of the Company s Common Shares present at the Annual Meeting in person or by proxy must vote in favor of the proposed 2003 Non-Employee Directors Stock Plan and the total vote cast on this proposal must represent over 50% in interest of all shares entitled to vote on the proposal in order for it to become effective. A majority of the Company s Common Shares present at the Annual Meeting in person or by proxy must vote in favor of any proposal to adjourn the Annual Meeting.

Assuming the presence of a quorum, the shareholders present at the meeting may continue to do business until adjournment, notwithstanding the withdrawal of shareholders holding sufficient voting power to leave less than a quorum, if any action taken (other than adjournment) is approved by the requisite vote.

Voting By Proxy

Regardless of whether or not shareholders plan to attend the meeting in person, all shareholders of the Company are urged to use the enclosed proxy card to vote their shares. All proxies that are properly executed and returned, unless revoked, will be voted at the Annual Meeting or any adjournment thereof in accordance with the instructions indicated thereon or, if no direction is indicated FOR the election of the Board s nominees as directors and FOR each of the proposals. The execution of a proxy will not affect the right to attend the Annual Meeting or any adjournment thereof and vote in person. A person who has given a proxy may revoke it at any time before it is exercised at the Annual Meeting by filing with the Company a written notice of revocation of a proxy bearing a later date or by attendance at the Annual Meeting and voting in person (or presenting at the meeting such written notice of the revocation of the proxy), provided that you have obtained a legal proxy if you hold your shares through a broker, bank or other shareholder of record. Attendance at the Annual Meeting will not, by itself, revoke a proxy. The proxies may also be voted for a substitute nominee or nominees in the event any one or more of the director nominees named under Item 1 Election of Directors will be unable to serve for any reason or be withdrawn from nomination, a contingency not now anticipated. Shares for which duly executed proxies are received will be voted according to the Board s best judgment upon such matters as may properly come before the Annual Meeting or any adjournment thereof.

Voting by Mail

Shareholders may sign, date and return their proxy forms in the pre-addressed, postage-paid envelope provided.

Voting by Telephone

You may vote by proxy using the toll-free telephone number listed on the proxy form. Please have the proxy form in hand when calling.

Shareholders whose shares are held through a brokerage firm, bank or other holder of record may vote by telephone only if the holder of record (broker, bank or other holder of record) offers those options. Shareholders voting shares held in the Southern California Water Company Investment Incentive Program must cast their vote at least one day prior to the meeting. Votes cast after this cut-off date will not be included in the final voting results.

Voting by Internet

You may vote by proxy using the Internet. The Internet address is www.proxyvote.com and is also listed on the proxy form. Please have the proxy form in hand when going online.

Shareholders whose shares are held through a brokerage firm, bank or other holder of record may vote by Internet only if the holder of record (broker, bank or other holder of record) offers those options. Shareholders voting shares held in the Southern California Water Company Investment Incentive Program must cast their vote at least one day prior to the meeting. Votes cast after this cut-off date will not be included in the final

voting results.

Adjournments

The Annual Meeting may be adjourned, even if a quorum is not present, by a majority of the votes of shareholders represented at the Annual Meeting in person or by proxy. In the absence of a quorum at the Annual Meeting, no other business may be transacted at the Annual Meeting.

Notice of the adjournment of a meeting need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken, provided that if the adjournment is for more than 45 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting must also be given. Any business may be transacted at an adjourned meeting, which might have been transacted at the original meeting.

Solicitation of Proxies

The accompanying proxy relating to the Annual Meeting is being solicited by the Board of Directors of the Company for use at the Annual Meeting.

The Company will bear the entire cost of preparing, assembling, printing and mailing proxy statements, the proxies and any additional materials, which may be furnished by the Board to shareholders. The solicitation of proxies will be made by the use of the U.S. postal service and may also be made by telephone, or personally, by directors, officers and regular employees of the Company who will receive no extra compensation for such services.

In addition, the Company has retained Morrow & Co., a proxy distribution and solicitation firm, to assist in the distribution and solicitation of proxies for shares held in the names of banks, brokers and other nominees, for a fee of $7,500 plus reimbursement of reasonable out-of-pocket expenses.

Proposal One
Election of Class II Directors

The Company s Articles of Incorporation provide that classification of the Board will apply to every election of directors for so long as at least six directors are authorized under the Company s Bylaws and the Company s Common Shares are listed on the New York Stock Exchange. The Company s Bylaws provide that the Board of Directors shall consist of not less than five and not more than nine directors, with the exact number of directors currently set at seven. So long as the Board continues to consist of at least six, but less than nine, directors and the Company s Common Shares are listed on the New York Stock Exchange, directors will serve for a term of two years, and one-half of the directors (or as near to one-half as practicable) will be elected each year.

Under the Company s Bylaws, the Board of Directors could increase the authorized number of directors to up to nine without obtaining shareholder approval. In the event that the number of directors increases during any period that the Company s Common Shares are listed on the New York Stock Exchange, the increase will be apportioned by the Board between the classes of directors to make each class as nearly equal as possible. If the number of authorized directors is increased to at least nine during any period that the Company s Common Shares are listed on the New York Stock Exchange, the directors will be apportioned by the Board among three classes, each consisting of one-third of the directors, directors will serve for a term of three years, and one-third of the directors will be elected each year. If the number of authorized directors is decreased to five, then the Board will cease to be classified, provided the decrease in the number of directors cannot shorten the term of any incumbent director. Vacancies in the Board, except those existing as a result of a removal of a director, may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected will hold office until the next annual meeting and until such director s successor has been elected and qualified. The Company s shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors.

Pursuant to California law, members of the Board of Directors may be removed by the Board of Directors for cause (defined to be a felony conviction or court declaration of unsound mind), by the shareholders without cause or by court order for fraudulent or dishonest acts or gross abuse of authority or discretion. Generally, no director may be removed by the shareholders if the votes cast against such removal (or, if done by written consent, the votes eligible to be cast by the non-consenting shareholders) would have been sufficient to elect such director if voted cumulatively at an election at which the same total number of votes were cast (or, if the action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of the director s most recent election were then being elected (the Relevant Number of Directors). The Relevant Number of Directors, in the case of classified boards, is the greater of (i) the number of directors elected at the most recent annual meeting of shareholders and (ii) the number sought to be removed.

Three directors have been nominated for election as Class II directors for a two-year term expiring at the end of the Annual Meeting of Shareholders in 2006, or until their successors are elected and qualified. The terms of the remaining directors will continue as indicated below. The ages of the directors reported below are as of March 18, 2004.

Nominees for Class II Directors with Terms Expiring in 2006

The Board of Directors recommends that Shareholders vote FOR each of the nominees for Class II directors listed below.

Jean E. Auer
Consultant to the San Francisco Estuary Project since 1990 and retired Mayor of the town of Hillsborough, California. Mrs. Auer represents Hillsborough on the newly formed San Francisco Regional Water System Financing Authority and the Bay Area Water Supply and Conservation Agency. Mrs. Auer is a member of the California State Water Resources Control Board and a member of both the Central Coast and the San Francisco Regional Water Quality Control Boards. Mrs. Auer is on the board of the Water Education Foundation. Mrs. Auer, age 67, is a member of the Company s Compensation Committee and Chairperson of the Nominating and Governance Committee and has served as a director of the Company since 1995.

N.P. Dodge, Jr.
President of the N.P. Dodge Company, a full service real estate company in Omaha, Nebraska since September 1978. Mr. Dodge is a director of the Omaha Public Power District and is a director of Bridges Investment Fund. Mr. Dodge, age 67, is a member of the Company s Audit and Finance and Compensation Committees and has served as a director of the Company since 1990.

Robert F. Kathol
Executive Vice President of Smith Hayes Financial Service Corp., an investment banking firm in Omaha, Nebraska since 2001. Prior to its acquisition by Smith Hayes, Mr. Kathol had been Executive Vice President of Kirkpatrick, Pettis, Smith, Polian, Inc. since 1985. Mr. Kathol, age 63, is a member of the Company s Compensation Committee and is Chairperson of the Audit and Finance Committee and has served as a director of the Company since 1995.

Lloyd E. Ross
Retired Managing Partner of Invermex, L.P., a company developing hotels in the southwestern United States and Northern Mexico since 1997. For more than 35 years prior to his current position, Mr. Ross was associated with SMI Construction Co., a commercial and industrial general contracting firm in Irvine, California, having served as its President and Chief Executive Officer since 1976. Mr. Ross is also a director of PacifiCare Health Systems. Mr. Ross, age 63, has been Chairman of the Board of Directors of the Company since April 1999 and has served as a director of the Company since 1995.

Class I Directors with Terms Expiring in 2005

James L. Anderson
Senior Vice President of Americo Life Inc. since September 1996. Prior to its acquisition by Americo Life Inc., Mr. Anderson had served for ten years as President and Chief Executive Officer of Fremont Life Insurance Company. From 1975 to 1982, Mr. Anderson served as President and Chief Operating Officer of National American Insurance Company of California, a property and casualty company. Mr. Anderson, age 60, is a member of the Company s Nominating and Governance Committee and Chairperson of the Compensation Committee and has served as a director of the Company since 1997.

Anne M. Holloway
Having served as a Partner in Navigant Consulting, Inc., a provider of financial and strategic consulting services to Fortune 500 companies, governments, and governmental agencies from 1999 to 2000, Mrs. Holloway retired from 25 years of active service in the finance profession. Mrs. Holloway served as President of Resolution Credit Services Corp. a subsidiary of Xerox Financial Services from 1992 to 1998. Prior to joining the Resolution Group, Mrs. Holloway was employed for nine years in various management positions with Shawmut National Corporation, a financial service company. Mrs. Holloway, age 51, is a member of the Company s Audit and Finance, Nominating and Governance and Compensation Committees and has served as a director of the Company since 1998.

Floyd E. Wicks
President and Chief Executive Officer of the Company since April 1992. Mr. Wicks served as President of the Company from April 1990 to March 1992, and as Vice President of Operations from January 1988 to March 1990. Mr. Wicks, age 60, has served as a director of the Company since 1990 and has also served as President of each of the Company s subsidiaries during the past five years (or such lesser period of time as the subsidiaries have been owned by the Company).

The following table sets forth, as of March 18, 2004, the beneficial ownership of Common Shares of the Company by each of the Company s current directors.

Directors Beneficial Ownership of Common Shares Table

Name	Amount and Nature of Beneficial Ownership	Percent of Class Beneficially Held
James L. Anderson	3,859	*
Jean E. Auer	5,519	*
N.P. Dodge, Jr.	6,000	*
Anne M. Holloway	4,049	*
Robert F. Kathol	3,450	*
Lloyd E. Ross	3,863	*
Floyd E. Wicks	19,395	*

*Less than one percent

Certain Relationships and Related Transactions

No director, nominee, executive officer or any member of their family had any indebtedness to the Company, any business relationship with the Company or any transaction with the Company in 2003. No director, nominee, executive officer or any member of their family, at any time during the past three years, have been employed by any entity, including a charitable organization, that, has made payments to, or received payments from, including charitable contributions, the Company for property or services in an amount which, in any single fiscal year, exceeded the greater of $1 million or 2% of the other entities consolidated gross revenues reported for that fiscal year.

Board Committees and Meetings

During 2003, directors met as a Board seven times. No director attended less than 75% of the meetings of the Board. The Company has adopted a policy that each Director should make every reasonable effort to attend each annual meeting of the Shareholders. At the 2003 Annual Meeting of Shareholders all Directors were present. The Board of Directors has an Audit and Finance Committee, a Nominating and Governance

Committee, and a Compensation Committee. Each Committee operates under a charter, which identifies the purpose of the Committee and its primary functions and responsibilities. The Committee charters are available on the Corporate Governance section on the AWR website at www.aswater.com. The Board of Directors may establish, from time-to-time, other committees on an ad hoc basis to address strategic or business related opportunities. The Board has established one such committee, the Special Projects Committee. Members of such ad hoc committees are paid for their services in accordance with policies of the Board. The Chairman of the Board is an ex-officio member of all committees of the Board and is the presiding director for non-management sessions of the Board. The Board has affirmatively determined that a majority of the Company s directors and all of the members of the Audit Committee, Nominating & Governance Committee and Compensation Committee are independent directors under the NYSE corporate governance listing standards.

Audit and Finance Committee

The Audit and Finance Committee provides advice and assistance to the Board of Directors on accounting and financial reporting practices of the Company. The Committee reviews the scope of audit work and findings of the firm of independent public accountants who serve as auditors of the Company and also monitors the work of the Company s internal auditors. The Committee also reviews the qualifications of, and recommends to the Board of Directors, a firm of independent auditors and reviews and approves fees charged by the independent auditors.

The Audit and Finance Committee conducts its responsibilities pursuant to its Charter, adopted by the Board of Directors. Members of the Audit and Finance Committee are independent as determined under the standards of the New York Stock Exchange. The Company has determined that Robert Kathol is an audit committee financial expert within the meaning of the final rules implementing Section 406 and 407 of the Sarbanes-Oxley Act and independent as defined in Item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act. No Audit and Finance Committee members served on more than three public company boards.

During 2003, the Audit and Finance Committee, consisting of Robert F. Kathol - Chairperson, N.P. Dodge, Jr. and Anne M. Holloway, met five times to review and discuss with management, the internal auditor and the Company s independent auditors, the interim financial statements, annual audited financial statements and certain other matters. The Committee has received disclosures from and discussed with the Company s independent auditors PricewaterhouseCoopers LLP, the auditors independence as required by Independence Standards Board Standard No. 1. No director attended less than 75% of the meetings of the Audit and Finance Committee.

Nominating and Governance Committee

The Nominating and Governance Committee assesses qualifications of and makes recommendations as to candidates to fill vacancies on the Board of Directors. The Nominating and Governance Committee will consider persons for election to the Board of Directors who are recommended by shareholders. In order to submit a recommendation to the Nominating and Governance Committee, such recommendation must be submitted in writing and addressed to the Office of the Secretary at the Company s corporate headquarters. The written recommendation must contain all materials that would be necessary for a shareholder to make a nomination pursuant to Section 14 of the Bylaws of the Corporation and must be submitted no later than the time permitted for a shareholder to make a director nomination pursuant to Section 14 of the Bylaws. The shareholder submitting such recommendation must be prepared to provide other information requested by the Company reasonably related to the recommended individual s qualifications as a nominee and the person recommended must be able to, upon request and with reasonable advance notice, meet with one or more members of the Nominating and Governance Committee and/or the Board of Directors to inquire into the nominee s qualifications and background and to otherwise be interviewed for purposes of the nomination. The manner in which the Nominating and Governance Committee evaluates a potential nominee will not differ based on whether the potential nominee is recommended by a shareholder. **Note:** Shareholders may also

make their own nominations directly (as opposed to recommending candidates for the Nominating and Governance Committee to nominate) as set forth in Section 14 of the Company s Bylaws.

Nominees for director are selected on the basis of a number of qualifications, including:

- A reputation for integrity, honesty and adherence to high ethical standards.
- Holding or have held a generally recognized position of leadership. Prior service on this Board will be considered in connection with this qualification.
- Demonstrated business acumen, business or governmental experience and an ability to exercise sound business judgments in matters that relate to the Company s current and long-term objectives.
- The interest and ability to understand the sometimes conflicting interests of the various constituencies of the Company, which include shareholders, employees, customers, regulators, creditors and the general public, and to act in the interests of all shareholders.
- A demonstrated ability to work constructively with groups with diverse perspectives and have a demonstrated ability to tolerate opposing viewpoints.

The Company did not pay any fee to any third party to identify or evaluate or assist in identifying or evaluating potential nominees for director at the Annual Meeting. The Company has not received any recommended nominee from a Shareholder who beneficially owns more than 5% of the Company s shares or from a group of Shareholders who beneficially own, in the aggregate, more than 5% of the Company s shares.

During 2003, the Nominating and Governance Committee, consisting of Jean E. Auer - Chairperson, James L. Anderson and Anne M. Holloway, met four times. No director attended less than 75% of the meetings of the Nominating and Governance Committee.

Compensation Committee

The Compensation Committee reviews and makes recommendations to the Board of Directors as to appropriate compensation for the President and other executive officers of the Company and determines the awards to be made under the Company s Annual Incentive Plan and the 2000 Stock Incentive Plan.

During 2003, the Compensation Committee, consisting of James L. Anderson - Chairperson, Jean E. Auer, N.P. Dodge, Jr., Anne M. Holloway and Robert F. Kathol met four times. No director attended less than 75% of the meetings of the Compensation Committee.

Special Projects Committee

The Special Projects Committee reviews potential changes to the regulated and non-regulated operations of the Company including acquisitions, divestitures, joint ventures and partnerships and makes recommendations to the Board of Directors as to the financial and operational impact of such changes.

During 2003, the Special Projects Committee consisting of N.P. Dodge, Jr. Chairperson, James L. Anderson and Robert F. Kathol met three times. All directors were present at these meetings.

Remuneration for Directors

All directors (except Mr. Ross and Mr. Wicks) are currently paid an annual retainer of $15,000, payable in equal monthly installments. In addition, each such director receives a $1,200 fee for each meeting attended, which is reduced to $600 for telephonic meetings attended. The regular and organizational meetings of the board are counted as one meeting for purposes of the per meeting fee. In addition, each outside director who is a member of the Compensation Committee, Nominating and Governance Committee, Special Projects Committee or the Audit and Finance Committee, other than the chairperson of the committee, receives a $1,200 fee for each meeting attended, which is reduced to $600 for telephonic meetings attended.

The chairperson of the Compensation Committee, Nominating and Governance Committee, and Special Projects Committee, if an outside director, receives a fee of $2,400 for each committee meeting attended, which is reduced to $1,200 for telephonic meetings attended. The chairperson of the Audit and Finance Committee receives a fee of $3,600, which is reduced to $1,800 for telephonic meetings attended. Each director is reimbursed for reasonable and necessary travel, lodging and other expenses incurred in the performance of their duties.

Chairman of the Board Ross earned $75,000 as chairperson for the year 2003. The present annual compensation for the position of Chairman of the Board of Directors is $75,000. Neither Mr. Ross nor Mr. Wicks received separate compensation as directors.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company has adopted procedures to assist its directors and executive officers in complying with Section 16(a) of the Securities Exchange Act of 1934, as amended, which includes assisting in the preparation of forms for filing.

For 2003, the award of Stock Options to Floyd E. Wicks, the President and CEO of the Company of 4,150 Common Shares on January 1, 2003 and 22,500 Common Shares on January 1, 2003, and the award of Restricted Stock, of 1,050 Common Shares on May 20, 2003, were inadvertently not reported timely and were subsequently reported on Form 4.

The award of Stock Options to Susan L. Conway, an executive officer of the Company, of 12,075 Common Shares on January 1, 2003; the award of Stock Options to Joel A. Dickson, an executive officer of the Company, of 12,075 Common Shares on January 1, 2003; the award of Stock Options to McClellan Harris III, an executive officer of the Company, of 12,075 Common Shares on January 1, 2003; and the award of Stock Options to Donald K. Saddoris, an executive officer of the Company, of 12,075 Common Shares on January 1, 2003, were inadvertently not reported timely. All of these awards were subsequently reported on Form 4.

The award of Stock Options to James B. Gallagher, an executive officer of the Company, of 9,075 Common Shares on January 1, 2003; the award of Stock Options to James D. Carson, an executive officer of the Company, of 9,075 Common Shares on January 1, 2003; the award of Stock Options to Denise L. Kruger, an executive officer of the Company, of 9,075 Common Shares on January 1, 2003; the award of Stock Options to Patrick R. Scanlon, an executive officer of the Company, of 9,075 Common Shares on January 1, 2003; the award of Stock Options to Roger F. Kropke, an executive officer of the Company, of 9,075 Common Shares on January 1, 2003; and the award of Stock Options to Eva G. Tang, an executive officer of the Company, of 9,075 Common Shares on January 1, 2003, were inadvertently not reported timely. All of these awards were subsequently reported on Form 4.

The sale by Linda Matlick, the Controller of the Company of 22,225.2232 Common Shares out of her 401K Plan on February 5, 2003, was inadvertently not reported timely. The sale was subsequently reported on Form 4.

Executive Officers
Experience, Security Ownership, Compensation and Options

Executive Experience
The Company has ten executive officers. Information regarding their identities and business experience is shown in the following table and footnotes thereto.

Executive Experience Table

Name	Principal Occupation and Experience During the Past Five Years	Age	Held Current Position Since
Floyd E. Wicks (1)	President and Chief Executive Officer.	60	April 1992
McClellan Harris III (1)	Senior Vice President of Finance, Chief Financial Officer, Treasurer and Secretary. Chief Financial Officer, Vice President Finance, Treasurer, Corporate Secretary from April 1997. Vice President and Treasurer from October 1996. Treasurer from April 1994.	52	October 2002
Joel A. Dickson (2)	Senior Vice President. Vice President Administration from April 2001. Vice President Business Development from April 1997. Vice President Customer Service of Region III from April 1994.	51	October 2002
Susan L. Conway (3)	Senior Vice President Administrative Services. Vice President Utility Regulation from January 1998. Manager of Regulatory Affairs from February 1990.	43	January 2004
Denise L. Kruger (3)	Senior Vice President Operations. Vice President of Customer Service Region I from October 2002. Vice President of Customer Service Region II from October 2001. Vice President Water Quality from January 1998. Manager Quality Assurance from January 1997. Water Quality Manager from October 1992.	40	January 2004
James B. Gallagher (3)	Vice President of Customer Service Region III. Chief Financial Officer, Vice President Finance and Secretary from April 1994.	49	April 1997
Eva G. Tang (3)	Vice President and Treasurer. Financial Planning Manager, Assistant Treasurer and Assistant Secretary from October 1999.	48	October 2002
Patrick R. Scanlon (3)	Vice President of Customer Service Region II. Orange County District Manager from December 1994.	46	October 2002
Roger F. Kropke (3)	Vice President of Bear Valley Electric. Manager of Bear Valley Electric from December 1994.	58	October 2002
William C. Gedney	Vice President Water Quality. Manager of Water Quality since 1997.	49	January 2004

(1) Holds same titles in Southern California Water Company, American States Utility Services, Inc. and Chaparral City Water Company
(2) Holds same title in Chaparral City Water Company
(3) Officer of Southern California Water Company only

Security Ownership of Directors and Executive Officers
Information regarding the number of Common Shares beneficially owned by the ten executive officers is shown in the following table.

The holdings include shares that the officers will have the right to acquire as of June 1, 2004 through the exercise of stock options under the Company s 2000 Stock Incentive Plan.

Executive Security Ownership Table

Name	Common Shares Owned[1]	Option Shares[2]	Total	Percent of Class
Floyd E. Wicks	19,395	47,645	67,040	*
McClellan Harris III	5,396	23,955	29,261	*
Joel A. Dickson	15,442	23,955	39,397	*
Susan L. Conway	9,056	23,955	32,821	*
James B. Gallagher	5,901	20,985	26,886	*
Denise L. Kruger	7,226	20,985	28,035	*
Eva G. Tang	2,045	4,491	6,480	*
Patrick R. Scanlon	6,778	4,491	11,148	*
Roger F. Kropke	5,451	4,491	9,942	*
William C. Gedney	1,956	1,744	3,047	*

* Less than one percent
(1) As of March 18, 2004
(2) Includes all shares that may be acquired upon exercise of options under the Company s 2000 Stock Incentive Plan as of June 1, 2004
Directors and executive officers of the Company as a group beneficially owned 280,797 Common Shares of the Company, inclusive of Common Shares that may be acquired upon exercise of options awarded under the 2000 Stock Incentive Plan as of June 1, 2004. The combined total is less than one percent of the total Common Shares outstanding.

Executive Compensation
The following table sets forth information on compensation of the Company s Chief Executive Officer and the four highest compensated executive officers of the Company or Southern California Water Company for the three most recent calendar years.

Executive Compensation Table

Name and Principal Position	Year	Annual Comp. Salary [1] ($)	Number of Shares Underlying Options Granted [2] (#)	Short Term Comp. AIP Payouts [3] ($)	Dividend Equivalent Rights (DER)	All Other Comp. [4] ($)
Floyd E. Wicks	2003	$ 380,000	26,650	$ 87,688	$ 43,913	$ 16,761
President and Chief	2002	365,000	22,500	113,179	20,520	17,536
Executive Officer	2001	376,566	12,000	162,288	-	18,010
McClellan Harris III	2003	220,000	12,075	41,441	21,349	15,555
Sr. Vice President of	2002	207,000	12,075	51,370	10,521	14,582
Finance, Chief	2001	205,122	6,000	67,738	-	14,158
Financial Officer,						
Treasurer and Sec						
Joel A. Dickson Sr.	2003	216,000	12,075	41,441	21,349	15,909
Vice President of	2002	207,000	12,075	51,370	10,521	16,188
Administration	2001	206,223	6,000	67,738	-	15,242
James B. Gallagher	2003	178,000	9,075	34,234	16,045	7,709
Vice President of	2002	171,000	9,075	42,274	7,907	4,995
Customer Service	2001	166,820	6,000	37,162	-	4,299
Region III						

Susan L. Conway	2003	175,000	12,075	33,313	18,697	14,273
Sr. Vice President	2002	166,400	12,075	38,786	7,908	16,842
Operations	2001	150,100	6,000	34,104	-	16,618

(1) The executive officers of the Company receive certain perquisites, including the personal use of a Company-owned vehicle and personal computer. The aggregate amount of such perquisites received by each named officer, in the case of any such named officer, does not exceed 10% of the total annual salary of such officer.

(2) The 2000 Stock Incentive Plan (the 2000 Plan) was approved at the 2000 Annual Meeting. The purpose of the 2000 Plan is to provide stock-based incentives as a means of promoting the success of the Company by attracting, retaining and aligning the interests of employees (including officers) with those of shareholders generally.

(3) The Company adopted an Annual Incentive Plan (AIP) for executive officers and managers in 2000. Payouts under the AIP, which are made in cash or restricted stock pursuant to the provisions of the AIP, are based on the prior year s operating results. All amounts paid in 2001, 2002 and 2003 were paid in cash.

(4) Includes payment by the Company of the premium on business travel and accident policy of $86 per person per year for 2001, $85 in 2002, and $228 in 2003; and payment by the Company of the premium for group life insurance of $190 per person for 2001, $168 for 2002, and $168 for 2003. The balance represents the Company s matching contribution to the 401(k) Plan for the benefit of each named officer and the taxable value of the personal usage of the executive s company vehicle.

Annual Incentive Plan

The Company has adopted an Annual Incentive Plan (AIP) for executive officers and managers of the Company (Eligible Participants). The purpose of the AIP is to compensate Eligible Participants of the Company for increasing shareholder value and supporting future growth of the Company. Under the terms of the AIP, awards may be granted annually to an Eligible Participant in accordance with the terms of the AIP. If an award is granted to an Eligible Participant, a target award will be established for that Eligible Participant by the Compensation Committee based upon a percentage of that Eligible Participant s wages, exclusive of overtime and bonuses, for the preceding calendar year. The target award to be paid to that Eligible Participant may be adjusted by (i) a factor reflecting the Company s financial performance for the preceding calendar year and (ii) a factor reflecting certain strategic performance initiatives for the preceding calendar year, both of which would be multiplied times the target award for that Eligible Participant. The financial performance component is based on the Company s actual return on rate base as a percentage of authorized return on rate base, less a maintenance adjustment, if maintenance costs are significantly less than estimated for rate base purposes. The strategic adjustment factor is based upon achieving certain strategic goals established by the Compensation Committee.

The Compensation Committee established the financial performance component for the year 2003 based on a schedule ranging from a financial performance percentage of 125% if the actual return on rate base was more than 105% of authorized return on rate base to 0% if the actual return on rate base was less than 100%. The Compensation Committee established the strategic adjustment component for the year 2003 on the basis of a schedule ranging from 25% if there was an increase in Company operating revenues as a result of acquisitions of more than 33%, to 0% if there was an increase in Company operating revenues as a result of acquisitions of less than 10%.

Under the terms of the AIP, the Company s external auditors for the year in which the awards were granted will pay awards after completion of a review of the award calculations. If the awards are less than 20% of the Eligible Participant s annual wages, the award will be paid in cash. If the awards are 20% or more of the Eligible Participant s annual wages, the awards may be paid in restricted stock pursuant to the terms of the 2000 Plan. The restrictions applicable to the restricted stock will lapse in a series of three successive annual installments commencing on the first anniversary date after the end of the plan year for which the award was granted unless the Compensation Committee provides otherwise. Payment of the award under the AIP will be accelerated upon a change in control of the Company, as defined in the 2000 Plan.

Based on the performance measurements in the AIP for the year ended December 31, 2003, Eligible Participants will be eligible for awards with respect to operating results for 2003. The Compensation Committee has not yet reviewed the final audited results for 2003 to determine the awards that will be made.

Equity Compensation Plan Information

The following table sets forth information regarding the Company s equity compensation plans as of December 31, 2003. This table does not include the Company s 2003 Non-Employees Directors Stock Plan, which is a new plan that is being submitted for shareholder approval at this Annual Meeting.

Equity Compensation Plan Table

Plan Category	Number of Securities to be issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities remaining available for future issuance under Equity Compensation Plans (excluding securities reflected in column (a)) (c) [1]
Equity Compensation Plans approved by Security Holders	332,629	$ 22.86	416,321
Equity Compensation Plans not approved by Security Holders	-0-	-0-	-0-
Total	332,629	$ 22.86	416,321

(1) Of these shares, 416,321 were available for future issuance of stock options or restricted stock awards.

Option Grants in Last Year

The following table sets forth information with respect to all options granted to the named executive officers during 2003.

Option Grants in Last Year Table

Employee Name	Number of Shares Underlying Options Granted (#)	Award Date	Percentage of Total Options Granted	Exercise Price ($/Share)	Expiration Date	Grant Date Black-Scholes Value (1)(2)(3)
Floyd E. Wicks	26,650	January 1, 2003	17.7%	23.15	December 31, 2012	$ 130,764
McClellan Harris III	12,075	January 1, 2003	8.0%	23.15	December 31, 2012	59,249
Joel A. Dickson	12,075	January 1, 2003	8.0%	23.15	December 31, 2012	59,249
James B. Gallagher	9,075	January 1, 2003	6.0%	23.15	December 31, 2012	44,528
Susan L. Conway	12,075	January 1, 2003	8.0%	23.15	December 31, 2012	59,249

(1) The Black-Scholes option-pricing model was used to estimate the grant date present value of the options. Assumptions for options granted are as follows: 29.8% volatility; risk free rate of return of 3.05% based on ten-year U.S. Treasury securities; dividend yield 3.58% and an estimated period to exercise of 5 years.

(2) One-third of the stock options granted to the named executive become exercisable on each of the first three anniversaries of the grant date, but may be exercised earlier if there is a change in control of the Company as defined under Employment Contracts, Termination and Change-In-Control Arrangements below. The Company has not granted any stock appreciation rights or other types of awards in 2003. No options were exercised by an executive officer in 2003.

(3) These values are neither predictions nor indications of what the Company believes the market value of its Common Shares will be. The ultimate values of the options will depend on the future market prices of the Common Shares, which cannot be forecasted with reasonable accuracy. The actual value, if any, which an optionee will recognize on exercise of an option, will depend on the difference between the market value of the Common Shares on the date the option is exercised and the applicable exercise price.

Option Exercises and Holdings

The following table sets forth information concerning the aggregate value of exercised and unexercised options held by the executive officers of the Company. Value at December 31, 2003 is measured as the difference between the exercise price and fair market value on December 31, 2003.

Aggregated Option Exercises and Holdings Table

Employee Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options Held at December 31, 2003		Value of Unexercised In the Money Options Held at December 31, 2003	
			Exercisable	Un-Exercisable	Exercisable	Un-Exercisable
Floyd E. Wicks	-	-	36,140	37,010	$ 92,145	$ 64,003
McClellan Harris III	-	-	17,930	18,220	$ 45,737	$ 31,319
Joel A. Dickson	-	-	17,930	18,220	$ 45,737	$ 31,319
James B. Gallagher	-	-	15,950	14,200	$ 42,351	$ 24,445
Susan L. Conway	-	-	17,930	18,220	$ 45,737	$ 31,319

Employment Contracts, Termination and Change-in-Control Arrangements

The Company is an at-will employer and none of the executive officers has an employment contract with the Company. Each of the Company s executive officers named above and Denise Kruger is a party to a change in control agreement which provides for certain benefits in the event of a change in control of the Company if the executive officer s employment with the Company or Southern California Water Company is terminated other than for cause or disability or the executive terminates employment for good reason. A change in control under these agreements will generally include (i) an acquisition by certain persons of more than 50% of the voting securities of the Company or Southern California Water Company, (ii) certain changes in a majority of the Board of Directors of the Company or Southern California Water Company, (iii) certain dissolutions or liquidations of the Company or Southern California Water Company, or (iv) certain mergers or consolidations or sales of all or substantially all of the assets of the Company or Southern California Water Company, in any case involving more than a 50% change in ownership. An executive may terminate his or her employment for good reason if the executive is assigned duties inconsistent in any respect with the executive s position or the executive is not re-appointed to the same position following the change in control, the executive s salary or benefits are reduced or the executive is located at an office that increases the distance from the executive s home by more than 35 miles. The executive will be entitled to the following benefits: a cash payment equal to 2.99 times the executive s highest annual base salary during the preceding three years and an amount equal to the difference between the single sum actuarial equivalent of the executive s accrued benefits under the Company s Pension Plan and Pension Restoration Plan and the single sum actuarial equivalent of the executive s accrued benefits under such plans if the executive was credited with two additional years of service at the executive s highest annual rate of compensation during the past three years. Coverage under the Company s health and welfare benefit plans would also be extended to these individuals for a period of 24 months after termination under the circumstances previously described.

Pension Plan

Southern California Water Company maintains a noncontributory, defined benefit pension plan. Benefits are determined under a formula applied uniformly to all employees, regardless of position, and amounts depend on length of service at the average of the five highest consecutive years of compensation earned. For purposes of pension calculations, compensation includes salary and all other compensation but excludes bonuses, lump sum payments, and the value of personal use of Company vehicles and other perquisites. An employee who terminates employment after having at least five years of service with the Company has a vested interest in the Plan.

Benefits payable at retirement (at age 55 or beyond) are reduced by a percentage of primary Social Security benefits based upon years of credited service and are payable monthly. The following table illustrates the estimated annual benefits payable upon retirement, at age 65, for persons in the earnings classifications with years of service as shown, excluding Social Security deductions, for employees in the Southern California Water Company Pension Plan.

Pension Plan Table

Average Annual Salary for Highest Consecutive Five Years	Benefits Based on Length of Service					
	15 Years	20 Years	25 Years	30 Years	35 Years	40 Years

$ 125,000	$ 37,500	$ 50,000	$ 62,500	$ 75,000	$ 87,500	$ 100,000
150,000	45,000	60,000	75,000	90,000	105,000	120,000
175,000	52,500	70,000	87,500	105,000	122,500	140,000
200,000	60,000	80,000	100,000	120,000	140,000	160,000
225,000	61,500	82,000	102,500	123,000	143,500	164,000
250,000	61,500	82,000	102,500	123,000	143,500	164,000
275,000	61,500	82,000	102,500	123,000	143,500	164,000
300,000	61,500	82,000	102,500	123,000	143,500	164,000
400,000	61,500	82,000	102,500	123,000	143,500	164,000
450,000	61,500	82,000	102,500	123,000	143,500	164,000
500,000	61,500	82,000	102,500	123,000	143,500	164,000

The executive officers of the Company in 2004 have the following credited years of service under the pension plan:

Name	**Years of Service**
Floyd E. Wicks	17
McClellan Harris III	14
Joel A. Dickson	14
James B. Gallagher	17
Susan L. Conway	16

The Plan provides a Special Early Retirement option for those employees for whom the sum of age and number of years of service, at retirement, equals at least 80.

The Southern California Water Company Pension Restoration Plan supplements retirement benefits payable to certain participants in the Southern California Water Company Pension Plan by making up benefits, which are reduced by virtue of Section 415 (a)(17) of the Internal Revenue Code of 1986, as amended.

The Company has a Retirement Plan for Non-Employee Directors (the Non-Employee Directors Plan) of the Company. This Non-Employee Directors Plan provides annual benefits to an eligible director in an amount equal to the annual retainer in effect at the director s date of retirement. Benefits are payable in cash in monthly installments for a period equal to the shortest of (a) the period he or she was a director or (b) 10 years. In the case of a director s death, benefits will continue to be received by that director s surviving spouse for the remaining period for which the director would have been entitled to receive benefits except for death. Benefits are payable to directors after the age of 62 and after retirement from the Board, except that a

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director who ceases to be a director before attaining age 62 because of ill health or death may receive benefits immediately after retirement from the Board, or at such later date as he or she may request. Directors who are removed for cause are not eligible for benefits under the Non-Employee Directors Plan. As a condition of participation in the Non-Employee Directors Plan, an eligible director must agree to retire from the Board at the annual shareholders meeting occurring on or next following such director s 72nd birthday, and to accept nomination as a director if requested by the Board (and to serve if so nominated) for at least 10 years after his or her first election to the Board. The Non-Employee Directors Plan contains change-in-control provisions, which provide for payment of an amount equal to ten years of retainer discounted at 6%. A change in control under the Non-Employee Directors Plan will occur in the same circumstances in which a change in control will occur under the Company s change-in-control arrangements with its executive officers.

On May 20, 2003, the Board adopted the 2003 Non-Employee Directors Stock Plan (the 2003 Plan), subject to shareholder approval at the Annual Meeting. See Proposal Two for a description of the 2003 Plan. Under the 2003 Plan, participants in the Non-Employee Directors Plan who continued to serve as non-employee directors at the 2003 annual meeting of shareholders were given the opportunity to elect to receive stock units under the 2003 Plan, subject to shareholder approval of the 2003 Plan, in lieu of their cash benefits under the Non-Employee Directors Plan. All of the eligible directors have elected to receive stock units in lieu of such benefits. Effective May 20, 2003, and subject to approval of the 2003 Plan, no additional directors may become participants in the Non-Employee Directors Plan.

Deferred Compensation Plan for Directors

Under the Company s Deferred Compensation Plan for Directors, directors are entitled to defer a portion of their compensation until specified times after the deferral. Interest accrues on amounts deferred under this plan. None of the directors or nominees has currently deferred any income under the Deferred Compensation Plan for Directors.

Compensation Committee Interlocks and Insider Participation

Mr. Ross, as Chairman of the Board, serves as an ex-officio member of the Compensation Committee. The Compensation Committee recommends Mr. Ross compensation as Chairman of the Board. The Board of Directors determines Mr. Ross compensation. No other member of this Committee is a current or former officer or employee of the Company or any of its subsidiaries or affiliates. The Compensation Committee s report on executive compensation is set forth below under Board Committee Reports Report on Executive Compensation .

None of the executive officers of the Company is a member of the board of directors or the compensation committee of any company on which any of the Company s directors serve as an executive officer, director or member of the compensation committee.

Board Committee Reports
Report of the Audit and Finance Committee

The Audit and Finance Committee operates under a written charter adopted by the Board of Directors and is composed of three directors - N.P. Dodge, Jr., Anne M. Holloway and Robert F. Kathol. Lloyd E. Ross, Chairman of the Company s Board of Directors, is an ex-officio member of the Committee.

General
The Committee reviews the overall scope and plans for the respective audits of the internal and independent auditors. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluation of the internal controls and the overall quality of the Company s financial reporting. The Committee oversees the Company s financial reporting processes on behalf of the Board of Directors. Management has primary responsibility for the Company s financial statements, internal controls, disclosure controls and the financial reporting process. The independent accountants are responsible for performing an independent audit of the Company s consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Committee s responsibility is to monitor and oversee these processes. The independent auditors report directly to the Committee and the Board of Directors.

Committee Charter
The Committee conducts its responsibilities pursuant to its charter, an amended and restated copy of which is attached hereto as Attachment II.

Communication with Audit Committee
In this context, the Committee has met and held discussions with management and the independent accountants. Management represented to the Committee that the Company s internal controls have no material weakness and that the consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent accountants. The Committee discussed with the independent accountants matters required to be discussed by Statement on Auditing Standards No. 61.

Independence Discussions with Audit Committee
The Company s independent accountants also provided to the Committee the written disclosures required by Independence Standards Board Standard No. 1 and the Committee discussed with the independent accountants that firm s independence.

Recommendation for Inclusion in Form 10-K
Based upon the Committee s discussion with management, the independent accountants, and the Committee s review of the representations of management, and the report of the independent accountants to the Committee, the Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission.

Audit Committee
Robert F. Kathol - Chairperson
N.P. Dodge, Jr.
Anne M. Holloway

Report of the Compensation Committee

The Compensation Committee operates under a written charter adopted by the Board of Directors and is composed of five independent directors - James L. Anderson, Jean E. Auer, N.P. Dodge, Jr., Anne M. Holloway, and Robert F. Kathol. Lloyd E. Ross, Chairman of the Corporation s Board of Directors, is an ex-officio member of the Committee.

The primary responsibility of the Compensation Committee is to review and make recommendations to the Board of Directors as to the appropriate level of compensation for the executive officers of the Company, including the Chief Executive Officer.

General Philosophy

In general, the executive compensation program is designed to reward, motivate and retain the skilled management necessary to achieve the Company s goals of increasing shareholder value and maintaining leadership position within the industry. The Committee has established as its objective the design and implementation of a compensation program for executives that will (i) provide fair, equitable and reasonable compensation, (ii) reward excellent team and individual job performance and abilities, and (iii) attract, retain and motivate talented and experienced executives. In making its recommendations to the Board, the Compensation Committee takes into account the fact that both the California Public Utilities Commission and the Arizona Corporation Commission review executive salaries of regulated public utilities for reasonableness. Moreover, the Committee recognizes that, as a holding company of regulated public utilities, financial performance of the Company is constrained by and dependent upon not only the regulatory process but also a number of other factors beyond the Company s immediate control, such as weather, water quality and water supply. As a result, executive compensation is based on a number of subjective and objective factors beyond the recent financial performance of the Company.

Executive Compensation Program

In determining individual compensation, the Committee considered the executive officer s duties, the quality of his or her performance of those duties, the importance of the position, the contribution that each individual has made to the Company s overall performance and its strategic positioning for the future. The Committee also considered whether an executive officer s duties have expanded or otherwise materially changed from the previous year, the officer s experience and value to the Company and the extent and frequency of prior adjustments to that officer s salary. The Committee retained outside consultants and executive compensation specialists in evaluating the current compensation program and in implementing any changes. For executives other than the Chief Executive Officer, the Committee also considered recommendations made by the Chief Executive Officer.

Total compensation consists of three components base salary, short-term incentives in the form of cash bonuses and dividend equivalent rights, and long-term incentives in the form of stock options. Adjustment to base salaries, after consideration of all relevant factors, allow for annual adjustments and avoid wide fluctuations in compensation from year to year. Salary ranges are set by periodic comparison to rates of pay for comparable positions within the utility industry and individual salaries are adjusted based on external salary levels, individual performance and changes in responsibilities.

The Committee determines executive compensation not only on base salary, but believes that executives should have the opportunity to earn a significant amount of variable pay based on the short and long-term performance of the Company. The Committee believes that stock-based incentives promote the success of the Company by attracting, motivating, rewarding, retaining and aligning the interests of executive officers with those of shareholders generally. Including all forms of compensation, an executive s total annual compensation opportunity is such that at maximum performance levels, base salary plus awards under the Company s existing AIP and the 2000 Plan is intended to yield annual compensation between the 60th and 75th percentiles of compensation for comparable positions at certain identified companies within the utility industry (the Competitive Target Level). Long-term incentives are provided through stock-based awards. The Compensation Committee has not yet reviewed the final audited results for 2003 to determine the awards that will be made.

During 2003, the 2000 Plan was amended, with shareholder consent, to increase the maximum aggregate number of Common Shares that may be delivered pursuant to awards to be granted under the 2000 Plan and to increase the maximum number of Common Shares that may be delivered pursuant to awards granted under the 2000 Plan to any one individual.

CEO Compensation

Floyd E. Wicks has been President and Chief Executive Officer of the Company since 1992. As with the compensation of the Company s other executive officers, the Committee has chosen not to adopt a direct formula approach to determining Mr. Wicks base salary. Rather, the Committee reviewed a number of objective and subjective measures including the Competitive Target Level for Mr. Wicks position, the performance of the Company as a whole, his effectiveness in addressing local, industry-wide issues and specific issues facing the Company, business development, the Company s immediate and long-term financial health and the performance of the Company s stock price. In addition the Committee reviewed a consultant s report entitled American States Water Executive Compensation dated October 17, 2002 and discussed its results with the consultant to the Committee. After the Committee s deliberations and review, the Committee recommended and the Board of Directors authorized that Mr. Wicks base salary be established as $380,000. The Committee determined that, including base salary, maximum payouts under the Annual Incentive Plan and options granted under the 2000 Plan would place Mr. Wicks total compensation within the Competitive Target Level.

Section 162(m) Limitation

The Committee has reviewed the Company s compensation structure in light of Section 162(m) of the Internal Revenue Code (the Code) which limits, subject to limited exceptions; the amount of compensation that the Company may deduct from its taxable income for any year to $1,000,000 for any of its five most highly compensated executives. In 2003, no executive officer s compensation exceeded the limitation set by Section 162(m), and therefore such limitation is presently inapplicable to the Company. The Committee will address this limitation when and if it becomes meaningful.

Compensation Committee

James L. Anderson - Chairperson
Jean E. Auer
N.P. Dodge, Jr.
Anne M. Holloway
Robert F. Kathol

Proposal Two
The Non-Employee Directors Stock Plan

On May 20, 2003, the Board adopted the 2003 Non-Employee Directors Stock Plan (the 2003 Plan), subject to shareholder approval at the Annual Meeting. The Board adopted the 2003 Plan to provide the non-employee directors with supplemental stock-based compensation and to encourage them to increase their stock ownership in the Company, and as a means to terminate the Non-Employee Directors Plan.

The Company maintains the Non-Employee Directors Plan, which provides for an annual cash retirement benefit to non-employee directors upon their retirement from service on the Board. Under the 2003 Plan, participants in the Non-Employee Directors Plan who continued to serve as non-employee directors at the 2003 annual meeting of shareholders were given the opportunity to elect to receive stock units under the 2003 Plan, subject to shareholder approval of the 2003 Plan, in lieu of their benefits under the Non-Employee Directors Plan. Effective May 20, 2003, and subject to approval of the 2003 Plan, no additional directors may become participants in the Non-Employee Directors Plan. All of the eligible directors have elected to receive stock units in lieu of such benefits.

Subject to shareholder approval of the 2003 Plan, an annual stock option award was granted to six (6) eligible directors immediately following the 2003 annual meeting of shareholders, which represented the annual stock option award provided for under the 2003 Plan, and stock units were credited to the stock unit accounts of six (6) eligible directors immediately following the 2003 annual meeting of shareholders, which represented the 2003 stock unit award provided for under the 2003 Plan. These grants are described in the Specific Benefits section below.

Specific Benefits

The following chart presents the benefits or amounts that will be received by or allocated to each of the following groups for each year during the term of the 2003 Plan to the extent that these benefits or amounts are determinable.

Subject to shareholder approval of the 2003 Plan, six stock option awards covering 1,000 shares each (an aggregate of 6,000 shares) were granted to the six non-employee directors of the Company as of May 20, 2003, which represented the 2003 annual stock option award pursuant to the terms of the 2003 Plan. In addition, subject to shareholder approval of the 2003 Plan, an aggregate of 29,032.26 stock units were credited to the stock unit accounts of six (6) eligible directors as of May 20, 2003, which represented the 2003 annual award of stock units pursuant to the terms of the 2003 Plan, and as of March 18, 2004 an aggregate of 940.73 stock units were credited as dividend equivalents with respect to such stock units and with respect to the 2003 stock option awards pursuant to the terms of the 2003 Plan.

2003 Non-Employee Directors Stock Plan

Name and Principal Position	Number of Shares Underlying Stock Options	Number of Units
Floyd E. Wicks, President and Chief Executive Officer.	Not eligible	Not eligible
McClellan Harris III, Senior Vice President of Finance, Chief Financial Officer, Treasurer and Secretary	Not eligible	Not eligible
Joel A. Dickson, Senior Vice President	Not eligible	Not eligible
Susan L. Conway, Senior Vice President of Administrative Services		