

AMERICAN STATES WATER CO

Form 10-Q

August 08, 2013

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2013

or
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 001-14431
American States Water Company
(Exact Name of Registrant as Specified in Its Charter)

California 95-4676679
(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA 91773-1212
(Address of Principal Executive Offices) (Zip Code)
(909) 394-3600
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Commission file number 001-12008
Golden State Water Company
(Exact Name of Registrant as Specified in Its Charter)
California 95-1243678
(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA 91773-1212
(Address of Principal Executive Offices) (Zip Code)
(909) 394-3600
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 ..
Golden State Water Company Yes x No ..

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
and
GOLDEN STATE WATER COMPANY
FORM 10-Q

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PART I

Item 1. Financial Statements

General

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

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

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

Filing Format

American States Water Company (hereinafter “AWR”) is the parent company of Golden State Water Company (hereinafter “GSWC”) and American States Utility Services, Inc. (hereinafter “ASUS”) and its subsidiaries.

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: AWR and GSWC. For more information, please see Note 1 of the Notes to Consolidated Financial Statements and the heading entitled General in Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations. References in this report to “Registrant” are to AWR and GSWC collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than GSWC.

Forward-Looking Information

This Form 10-Q 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” or other words that convey 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 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 or other independent audits of our costs

• Changes in the policies and procedures of the California Public Utilities Commission (“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 recovery of our costs through rates

The impact of increasing opposition to GSWC rate increases on our ability to recover our costs through rates and on the size of our customer base

- Our ability to forecast the costs of maintaining GSWC's aging water and electric infrastructure

Our ability to recover increases in permitting costs and in costs associated with negotiating and complying with the terms of our franchise agreements with cities and counties and other demands made upon us by the cities and counties in which GSWC operates

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• Changes in accounting valuations and estimates, including those 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 and wastewater quality 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 GSWC's service areas through the California State Water Project or pumping of groundwater

• Our ability to obtain adequate, reliable and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our water and wastewater operations

• Our ability to recover the costs associated with the contamination of GSWC's 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 for GSWC's Bear Valley Electric Service division 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 GSWC 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 ASUS's 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 or for default

• Delays in filing for or 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, maintenance and upgrading of our information technology systems

• General economic conditions which may impact our ability to recover infrastructure investments and operating costs 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 water and electric systems 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 or vandalism, 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

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- Potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber attack or other cyber incident
- 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 these risks (which are more fully disclosed in our 2012 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all of our forward-looking statements by these cautionary statements.

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AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)	June 30, 2013	December 31, 2012
Property, Plant and Equipment		
Regulated utility plant, at cost	\$1,393,711	\$1,351,086
Non utility property, at cost	9,121	9,021
Total	1,402,832	1,360,107
Less - Accumulated depreciation	(456,092)	(442,316)
Net property, plant and equipment	946,740	917,791
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	14,005	13,755
Total other property and investments	15,121	14,871
Current Assets		
Cash and cash equivalents	8,525	23,486
Accounts receivable — customers (less allowance for doubtful accounts of \$742 in 2013 and \$797 in 2012)	27,401	19,491
Unbilled revenue	20,131	16,147
Receivable from the U.S. government (less allowance for doubtful accounts of \$0 in 2013 and \$8 in 2012)	7,369	12,905
Other accounts receivable (less allowance for doubtful accounts of \$372 in 2013 and \$423 in 2012)	7,275	7,062
Income taxes receivable	2,001	16,547
Materials and supplies, at average cost	6,120	5,348
Regulatory assets — current	35,364	32,336
Prepayments and other current assets	4,189	4,391
Costs and estimated earnings in excess of billings on uncompleted contracts	52,843	37,703
Deferred income taxes — current	9,902	8,617
Total current assets	181,120	184,033
Regulatory and Other Assets		
Regulatory assets	149,529	143,679
Costs and estimated earnings in excess of billings on uncompleted contracts	2,151	436
Receivable from the U.S. government (less allowance for doubtful accounts of \$0 in 2013 and 2012)	2,827	4,535
Deferred income taxes	11	11
Other	15,487	15,587
Total regulatory and other assets	170,005	164,248
Total Assets	\$1,312,986	\$1,280,943

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

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

(in thousands)	June 30, 2013	December 31, 2012
Capitalization		
Common shares, no par value	\$251,627	\$249,322
Earnings reinvested in the business	213,758	205,257
Total common shareholders' equity	465,385	454,579
Long-term debt	332,359	332,463
Total capitalization	797,744	787,042
Current Liabilities		
Long-term debt — current	3,383	3,328
Accounts payable	55,216	40,569
Income taxes payable	437	511
Accrued other taxes	6,599	8,167
Accrued employee expenses	9,202	9,919
Accrued interest	3,916	3,909
Unrealized loss on purchased power contracts	1,147	3,060
Billings in excess of costs and estimated earnings on uncompleted contracts	2,299	12,572
Dividends payable	7,811	—
Other	12,438	11,662
Total current liabilities	102,448	93,697
Other Credits		
Advances for construction	68,831	70,781
Contributions in aid of construction - net	113,187	106,450
Deferred income taxes	148,641	142,597
Unamortized investment tax credits	1,836	1,881
Accrued pension and other postretirement benefits	73,493	71,618
Other	6,806	6,877
Total other credits	412,794	400,204
Commitments and Contingencies (Note 8)	—	—
Total Capitalization and Liabilities	\$1,312,986	\$1,280,943

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

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED JUNE 30, 2013 AND 2012
(Unaudited)

(in thousands, except per share amounts)	Three Months Ended		
	June 30, 2013	2012	
Operating Revenues			
Water	\$84,069	\$81,157	
Electric	8,397	8,373	
Contracted services	28,229	25,052	
Total operating revenues	120,695	114,582	
Operating Expenses			
Water purchased	16,670	13,831	
Power purchased for pumping	2,332	2,019	
Groundwater production assessment	3,823	3,982	
Power purchased for resale	2,828	2,680	
Supply cost balancing accounts	(377	) 4,163
Other operation expenses	6,519	6,851	
Administrative and general expenses	18,113	18,063	
Depreciation and amortization	9,768	10,407	
Maintenance	4,913	3,852	
Property and other taxes	3,748	3,716	
ASUS construction expenses	19,064	14,896	
Net gain on sale of property	—	(3)
Total operating expenses	87,401	84,457	
Operating Income	33,294	30,125	
Other Income and Expenses			
Interest expense	(5,768) (5,720)
Interest income	140	495	
Other, net	84	(13)
Total other income and expenses	(5,544) (5,238)
Income from operations before income tax expense	27,750	24,887	
Income tax expense	11,148	9,809	
Net Income	\$16,602	\$15,078	
Weighted Average Number of Common Shares Outstanding	19,306	18,882	
Basic Earnings Per Common Share	\$0.85	\$0.79	
Weighted Average Number of Diluted Shares	19,346	18,945	
Fully Diluted Earnings Per Common Share	\$0.85	\$0.79	

Dividends Paid Per Common Share	\$0.355	\$0.280
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The accompanying notes are an integral part of these consolidated financial statements

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS
ENDED JUNE 30, 2013 AND 2012
(Unaudited)

	Six Months Ended	
	June 30,	
(in thousands, except per share amounts)	2013	2012
Operating Revenues		
Water	\$153,302	\$147,358
Electric	19,131	19,186
Contracted services	58,814	54,930
Total operating revenues	231,247	221,474
Operating Expenses		
Water purchased	27,402	23,383
Power purchased for pumping	3,971	3,575
Groundwater production assessment	7,010	7,305
Power purchased for resale	6,508	5,871
Supply cost balancing accounts	994	7,600
Other operation expenses	11,973	14,277
Administrative and general expenses	36,020	34,892
Depreciation and amortization	19,584	20,897
Maintenance	8,847	7,183
Property and other taxes	7,896	7,821
ASUS construction expenses	39,797	35,181
Net gain on sale of property	(12	) (3
Total operating expenses	169,990	167,982
Operating Income	61,257	53,492
Other Income and Expenses		
Interest expense	(11,546	) (11,790
Interest income	327	710
Other, net	426	216
Total other income and expenses	(10,793	) (10,864
Income from operations before income tax expense	50,464	42,628
Income tax expense	20,397	17,435
Net Income	\$30,067	\$25,193
Weighted Average Number of Common Shares Outstanding	19,285	18,857
Basic Earnings Per Common Share	\$1.54	\$1.33
Weighted Average Number of Diluted Shares	19,324	18,988
Fully Diluted Earnings Per Common Share	\$1.54	\$1.32

Dividends Paid Per Common Share	\$0.71	\$0.56
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The accompanying notes are an integral part of these consolidated financial statements

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012
(Unaudited)

	Six Months Ended	
	June 30,	
(in thousands)	2013	2012
Cash Flows From Operating Activities:		
Net income	\$30,067	\$25,193
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,052	22,046
Provision for doubtful accounts	437	959
Deferred income taxes and investment tax credits	5,789	2,361
Stock-based compensation expense	1,135	1,170
Other — net	(159)	(260)
Changes in assets and liabilities:		
Accounts receivable — customers	(8,339)	(2,978)
Unbilled revenue	(3,984)	(9,527)
Other accounts receivable	(221)	4,306
Receivable from the U.S. government	7,244	(346)
Materials and supplies	(772)	(1,888)
Prepayments and other current assets	202	(1,863)
Regulatory assets — supply cost balancing accounts	994	7,600
Costs and estimated earnings in excess of billings on uncompleted contracts	(16,855)	9,732
Other assets (including other regulatory assets)	(14,307)	(9,620)
Accounts payable	5,979	4,428
Income taxes receivable/payable	14,472	13,677
Billings in excess of costs and estimated earnings on uncompleted contracts	(10,273)	(4,358)
Accrued pension and other postretirement benefits	3,733	4,379
Other liabilities	(1,574)	(1,074)
Net cash provided	33,620	63,937
Cash Flows From Investing Activities:		
Construction expenditures	(41,189)	(29,447)
Other investments	(200)	—
Proceed from sale of property	12	4
Net cash used	(41,377)	(29,443)
Cash Flows From Financing Activities:		
Proceeds from issuance of common shares and stock option exercises	1,832	2,748
Receipt of advances for and contributions in aid of construction	8,283	2,049
Refunds on advances for construction	(2,712)	(2,684)
Repayments of long-term debt	(109)	(234)
Proceeds from issuance of long-term debt	60	1,266
Net change in notes payable to banks	—	(2,000)
Dividends paid	(13,684)	(10,559)
Other — net	(874)	(480)
Net cash used	(7,204)	(9,894)
Net (decrease) increase in cash and cash equivalents	(14,961)	24,600

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Cash and cash equivalents, beginning of period	23,486	1,315
Cash and cash equivalents, end of period	\$8,525	\$25,915

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

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GOLDEN STATE WATER COMPANY

BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)	June 30, 2013	December 31, 2012
Utility Plant		
Utility plant, at cost	\$1,393,711	\$1,351,086
Less - Accumulated depreciation	(451,213	) (437,949
Net utility plant	942,498	913,137
Other Property and Investments	11,846	11,590
Current Assets		
Cash and cash equivalents	7,989	22,578
Accounts receivable-customers (less allowance for doubtful accounts of \$742 in 2013 and \$797 in 2012)	27,401	19,491
Unbilled revenue	20,131	16,147
Inter-company receivable	5,145	2,508
Other accounts receivable (less allowance for doubtful accounts of \$362 in 2013 and \$380 in 2012)	5,209	6,377
Income taxes receivable from Parent	3,947	16,442
Note receivable from Parent	9,200	—
Materials and supplies, at average cost	2,277	2,244
Regulatory assets — current	35,364	32,336
Prepayments and other current assets	3,595	4,162
Deferred income taxes — current	8,856	7,577
Total current assets	129,114	129,862
Regulatory and Other Assets		
Regulatory assets	149,529	143,679
Other accounts receivable	1,445	1,445
Other	14,057	14,339
Total regulatory and other assets	165,031	159,463
Total Assets	\$1,248,489	\$1,214,052

The accompanying notes are an integral part of these financial statements

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BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands)	June 30, 2013	December 31, 2012
Capitalization		
Common shares, no par value	\$231,814	\$231,480
Earnings reinvested in the business	195,631	184,777
Total common shareholder's equity	427,445	416,257
Long-term debt	332,359	332,463
Total capitalization	759,804	748,720
Current Liabilities		
Long-term debt — current	3,383	3,328
Accounts payable	41,126	27,292
Accrued other taxes	6,276	7,720
Accrued employee expenses	8,175	8,786
Accrued interest	3,916	3,909
Unrealized loss on purchased power contracts	1,147	3,060
Other	12,371	11,606
Total current liabilities	76,394	65,701
Other Credits		
Advances for construction	68,831	70,781
Contributions in aid of construction — net	113,187	106,450
Deferred income taxes	148,200	142,082
Unamortized investment tax credits	1,836	1,881
Accrued pension and other postretirement benefits	73,493	71,618
Other	6,744	6,819
Total other credits	412,291	399,631
Commitments and Contingencies (Note 8)	—	—
Total Capitalization and Liabilities	\$1,248,489	\$1,214,052

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
 STATEMENTS OF INCOME
 FOR THE THREE MONTHS
 ENDED JUNE 30, 2013 AND 2012
 (Unaudited)

(in thousands)	Three Months Ended		
	June 30, 2013	2012	
Operating Revenues			
Water	\$84,069	\$81,157	
Electric	8,397	8,373	
Total operating revenues	92,466	89,530	
Operating Expenses			
Water purchased	16,670	13,831	
Power purchased for pumping	2,332	2,019	
Groundwater production assessment	3,823	3,982	
Power purchased for resale	2,828	2,680	
Supply cost balancing accounts	(377	) 4,163
Other operation expenses	5,842	6,202	
Administrative and general expenses	15,166	15,670	
Depreciation and amortization	9,484	10,122	
Maintenance	4,365	3,357	
Property and other taxes	3,375	3,354	
Total operating expenses	63,508	65,380	
Operating Income	28,958	24,150	
Other Income and Expenses			
Interest expense	(5,726) (5,680)
Interest income	140	469	
Other, net	85	(14)
Total other income and expenses	(5,501) (5,225)
Income from operations before income tax expense	23,457	18,925	
Income tax expense	9,643	7,567	
Net Income	\$13,814	\$11,358	

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
 STATEMENTS OF INCOME
 FOR THE SIX MONTHS
 ENDED JUNE 30, 2013 AND 2012
 (Unaudited)

(in thousands)	Six Months Ended	
	June 30, 2013	2012
Operating Revenues		
Water	\$ 153,302	\$ 147,358
Electric	19,131	19,186
Total operating revenues	172,433	166,544
Operating Expenses		
Water purchased	27,402	23,383
Power purchased for pumping	3,971	3,575
Groundwater production assessment	7,010	7,305
Power purchased for resale	6,508	5,871
Supply cost balancing accounts	994	7,600
Other operation expenses	10,639	12,851
Administrative and general expenses	29,400	29,366
Depreciation and amortization	19,006	20,342
Maintenance	7,858	6,297
Property and other taxes	7,091	7,097
Total operating expenses	119,879	123,687
Operating Income	52,554	42,857
Other Income and Expenses		
Interest expense	(11,474	) (11,689
Interest income	318	679
Other, net	427	215
Total other income and expenses	(10,729	) (10,795
Income from operations before income tax expense	41,825	32,062
Income tax expense	17,306	13,322
Net Income	\$24,519	\$18,740

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
 STATEMENTS OF CASH FLOW
 FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012
 (Unaudited)

	Six Months Ended	
	June 30,	
(in thousands)	2013	2012
Cash Flows From Operating Activities:		
Net income	\$24,519	\$18,740
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,474	21,491
Provision for doubtful accounts	411	925
Deferred income taxes and investment tax credits	5,868	2,351
Stock-based compensation expense	835	961
Other — net	(17	) (323
Changes in assets and liabilities:		
Accounts receivable — customers	(8,339	) (2,978
Unbilled revenue	(3,984	) (9,527
Other accounts receivable	1,186	1,075
Materials and supplies	(33	) (179
Prepayments and other current assets	567	(1,764
Regulatory assets — supply cost balancing accounts	994	7,600
Other assets (including other regulatory assets)	(14,262	) (9,532
Accounts payable	5,166	(25
Inter-company receivable/payable	(2,637	) (352
Income taxes receivable/payable from/to Parent	12,495	13,599
Accrued pension and other postretirement benefits	3,733	4,379
Other liabilities	(1,358	) (722
Net cash provided	44,618	45,719
Cash Flows From Investing Activities:		
Construction expenditures	(41,021	) (28,728
Note receivable from AWR parent	(9,200) —
Other investments	(200) —
Net cash used	(50,421	) (28,728
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	8,283	2,049
Refunds on advances for construction	(2,712	) (2,684
Proceeds from the issuance of long-term debt	60	1,266
Repayments of long-term debt	(109	) (234
Dividends paid	(13,600	) (10,200
Other — net	(708	) (389
Net cash used	(8,786	) (10,192
Net (decrease) increase in cash and cash equivalents	(14,589	) 6,799
Cash and cash equivalents, beginning of period	22,578	—
Cash and cash equivalents, end of period	\$7,989	\$6,799

The accompanying notes are an integral part of these financial statements

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

Note 1 — Summary of Significant Accounting Policies:

Nature of Operations: American States Water Company (“AWR”) is the parent company of Golden State Water Company (“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”). The subsidiaries of ASUS may be collectively referred to herein as the “Military Utility Privatization Subsidiaries.”

GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 256,000 customers. GSWC also distributes electricity in several San Bernardino County mountain communities in California serving approximately 23,000 customers through its Bear Valley Electric Service (“BVES”) division. The California Public Utilities Commission (“CPUC”) regulates GSWC’s water and electric businesses, including properties, rates, services, facilities and other matters, and transactions by GSWC with its affiliates. AWR’s assets and operating income are primarily those of GSWC.

ASUS performs water and wastewater services, including the operation, maintenance, renewal and replacement of water and/or wastewater systems on a contract basis. Through its wholly owned subsidiaries, ASUS operates and maintains the water and/or wastewater systems at various military bases pursuant to 50-year firm, fixed-price contracts, which are subject to periodic price redeterminations and modifications for changes in circumstances, and changes in laws and regulations. There is no direct regulatory oversight by the CPUC over AWR or the operation, rates or services provided by ASUS or any of its wholly owned subsidiaries.

Basis of Presentation: The consolidated financial statements and notes thereto are being presented in a combined report being filed by two separate Registrants: AWR and GSWC. References in this report to “Registrant” are to AWR and GSWC, collectively, unless otherwise specified. Certain prior period amounts have been reclassified to conform to the 2013 financial statement presentation.

The consolidated financial statements of AWR include the accounts of AWR and its subsidiaries, all of which are wholly owned. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Inter-company transactions and balances have been eliminated in the AWR consolidated financial statements.

On May 20, 2013, AWR's Board of Directors also approved a two-for-one stock split of the Company's common shares. On or about September 3, 2013, shareholders of record will receive one additional share for each AWR common share they own. Pro forma per share data on a post-split basis are presented in Note 3 Earnings Per Share/Capital Stock.

The consolidated financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The December 31, 2012 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the

reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal, recurring items and estimates necessary for a fair statement of the results for the interim periods, have been made. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2012 filed with the SEC.

GSWC's Related Party Transactions: In May 2013, AWR issued an interest bearing promissory note (the "Note") to GSWC for \$20.0 million which expires on May 23, 2018. Under the terms of the Note, AWR may borrow from GSWC amounts up to \$20.0 million for working capital purposes. AWR agrees to pay any unpaid principal amounts outstanding under the Note, plus accrued interest. As of June 30, 2013, AWR has borrowed \$9.2 million from GSWC under this Note, which GSWC has reflected as a current note receivable on its June 30, 2013 balance sheet. This Note is expected to be repaid by AWR within one year.

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GSWC and ASUS provide and receive various services to and from their parent, AWR, and among themselves. In addition, AWR has a \$100.0 million syndicated credit facility. AWR borrows under this facility and provides funds to its subsidiaries, including GSWC, in support of their operations. The interest rate charged to GSWC and ASUS is sufficient to cover AWR's interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to its affiliate, ASUS, using allocation factors approved by the CPUC. Amounts owed to GSWC by its parent, AWR, or for allocated expenses are included in inter-company receivables as of June 30, 2013 and December 31, 2012.

Notes Payable to Banks: On May 23, 2013, AWR entered into a fourth amendment to its revolving credit agreement to, among other things, extend the expiration date of the syndicated credit facility to May 23, 2018, reduce the amount of interest and fees paid by the Company, and update certain representations and covenants in the credit agreement. The aggregate amount that may be borrowed under this facility is unchanged at \$100.0 million. The Company may, under the terms of the fourth amendment, elect to increase the aggregate commitment by up to an additional \$50.0 million. As of June 30, 2013, there are no outstanding borrowings under this credit facility.

Sales and Use Taxes: GSWC bills certain sales and use taxes levied by state or local governments to its customers. Included in these sales and use taxes are franchise fees, which GSWC pays to various municipalities (based on ordinances adopted by these municipalities) in order to use public right of way for utility purposes. GSWC bills these franchise fees to its customers based on a CPUC-authorized rate. These franchise fees, which are required to be paid regardless of GSWC's ability to collect from the customer, are accounted for on a gross basis. GSWC's franchise fees billed to customers and recorded as operating revenue were approximately \$947,000 and \$850,000 for the three months ended June 30, 2013 and 2012, respectively, and \$1.8 million and \$1.6 million for the six months ended June 30, 2013 and 2012, respectively. When GSWC acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis.

Depending on the state in which the operations are conducted, ASUS and its subsidiaries are also subject to certain state non-income tax assessments generally computed on a "gross receipts" or "gross revenues" basis. These non-income tax assessments are required to be paid regardless of whether the subsidiary is reimbursed by the U.S. government for these assessments under its 50-year contracts with the U.S. government. The non-income tax assessments are accounted for on a gross basis and totaled \$169,000 and \$186,000 during the three months ended June 30, 2013 and 2012, respectively, and \$331,000 and \$341,000 for the six months ended June 30, 2013 and 2012, respectively.

Accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on Registrant's consolidated financial statements upon adoption.

Note 2 — Regulatory Matters:

In accordance with accounting principles for rate-regulated enterprises, Registrant records regulatory assets, which represent probable future recovery of costs from customers through the ratemaking process, and regulatory liabilities, which represent probable future refunds that are to be credited to customers through the ratemaking process. At June 30, 2013, Registrant had approximately \$74.3 million of regulatory assets, net of regulatory liabilities not accruing carrying costs. Of this amount, \$50.7 million relates to the underfunding of pension and other post-retirement obligations, \$15.3 million relates to deferred income taxes representing accelerated tax benefits flowed through to customers, which will be included in rates concurrently with recognition of the associated future tax expense, and \$1.1 million relates to a memorandum account authorized by the CPUC to track unrealized gains and losses on GSWC's purchase power contract over the life of the contract. The remainder relates to other items that do not provide for or incur carrying costs.

Regulatory assets represent costs incurred by GSWC for which it has received or expects to receive rate recovery in the future. In determining the probability of costs being recognized in other periods, GSWC considers regulatory rules and decisions, past practices, and other facts or circumstances that would indicate if recovery is probable. If the CPUC determined that a portion of GSWC's assets were not recoverable in customer rates, GSWC would be required to determine if it had suffered an asset impairment that would require a write-down in the assets' valuation. Regulatory assets, less regulatory liabilities, included in the consolidated balance sheets are as follows:

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(dollars in thousands)	June 30, 2013	December 31, 2012
GSWC		
Water Revenue Adjustment Mechanism, net of Modified Cost Balancing Account	\$38,003	\$42,574
Base Revenue Requirement Adjustment Mechanism	8,265	6,833
Costs deferred for future recovery on Aerojet case	15,577	16,030
Pensions and other post-retirement obligations (Note 7)	55,836	56,894
Flow-through taxes, net (Note 6)	15,340	16,415
General rate case memorandum accounts	17,239	4,495
Other regulatory assets	40,393	40,332
Various refunds to customers	(5,760	) (7,558
Total	\$184,893	\$176,015

Regulatory matters are discussed in detail in the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2012 filed with the SEC. The discussion below focuses on significant matters and developments since December 31, 2012.

Alternative-Revenue Programs:

GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC using the Water Revenue Adjustment Mechanism (“WRAM”) and Modified Cost Balancing Account (“MCBA”) accounts approved by the CPUC. GSWC has implemented surcharges to recover all of its WRAM balances, net of the MCBA. The recovery or refund of the WRAM is netted against the MCBA over- or under-collection for the corresponding rate-making area and is interest bearing at the current 90-day commercial paper rate. For the three months ended June 30, 2013 and 2012, surcharges of \$7.1 million and \$4.2 million, respectively, were billed to customers to recover previously incurred under-collections in the WRAM, net of MCBA accounts, and \$10.6 million and \$7.6 million were billed to customers during the six months ended June 30, 2013 and 2012, respectively. For the three and six months ended June 30, 2013, the WRAM and MCBA accounts also reflect the effects of the authorized 2013 adopted revenue and supply cost amounts approved in the CPUC’s final decision issued in May 2013 on GSWC’s water general rate case, discussed later under General Rate Case Memorandum Accounts. In March 2013, the CPUC approved recovery of GSWC’s 2012 WRAM under-collection of \$23.8 million, to be collected over 12 to 18 months. As of June 30, 2013, GSWC has a net aggregated regulatory asset of \$38.0 million which is comprised of a \$51.1 million under-collection in the WRAM accounts and \$13.1 million over-collection in the MCBA accounts.

Based on CPUC guidelines, recovery periods relating to the majority of GSWC’s WRAM/MCBA balances range between 18 and 24 months. In April 2012, the CPUC issued a final decision which, among other things, set the recovery periods for under-collection balances that are up to 15% of adopted annual revenues at 18 months or less. In addition to adopting a new amortization schedule, the final decision sets a cap on total net WRAM/MCBA surcharges in any given calendar year of 10% of the last authorized revenue requirement. The cap is effective following the first test year of each applicant’s pending or next general rate case. For GSWC, the cap will be applied to its 2013 WRAM balances to be filed in early 2014. The cap requirement set forth in the final decision does not impact GSWC’s 2012 and prior year WRAM/MCBA balances.

For BVES, the CPUC approved the Base Revenue Requirement Adjustment Mechanism (“BRRAM”), which adjusts certain revenues to adopted levels. In May 2013, the CPUC approved surcharges for recovery of BVES’ 2012 BRRAM balance. The CPUC approved a 36-month surcharge, with the amounts collected through December 2014 to be applied to the 2012 BRRAM under-collection of \$2.3 million. Surcharges collected during the remainder of the 36-month period will recover a \$1.8 million increase in the BVES revenue requirement representing the difference between the allocated general office costs authorized by the CPUC in November 2010, and what was then in BVES’

rates for allocated general office costs. As authorized by the CPUC, the \$1.8 million was combined in the BRRAM for recovery through the surcharge; however, these costs are not considered an alternative revenue program.

General Rate Case Memorandum Accounts:

The balance in the general rate case memorandum accounts represents the revenue differences between interim rates and final rates authorized by the CPUC due to delays in receiving decisions on various general rate case applications. As of June 30, 2013, there is an aggregate \$17.2 million in the general rate case memorandum accounts, the majority of which is for retroactive rate increases effective January 1, 2013, as a result of the final decision issued by the CPUC in May 2013 on GSWC's water general rate case.

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On May 9, 2013, the CPUC issued a final decision on GSWC's water general rate case approving new rates for 2013 through 2015 at GSWC's three water regions, which include recovery for costs incurred at the general office. The new rates were retroactive to January 1, 2013 and were implemented on May 22, 2013. Accordingly, as of June 30, 2013, GSWC has a \$13.1 million regulatory asset representing the difference between interim rates and the final rates authorized by the CPUC for the period January 1, 2013 through May 22, 2013. A surcharge to recover this difference is expected to be filed with the CPUC during the third quarter of 2013.

Other Regulatory Assets:

Among other things, the final CPUC decision issued in May 2013 approved the recovery of various memorandum accounts which tracked certain previously incurred costs. As a result, during the first quarter of 2013, GSWC recorded \$3.2 million in other regulatory assets, the majority of which was reflected as a decrease in certain operating expenses related to the approval of these memorandum accounts in the final decision.

Other Regulatory Matters:

CPUC Rehearing Matter

In July 2011, the CPUC issued an order granting the rehearing of certain issues from the Region II, Region III and general office rate case approved in November 2010. Among the issues in the rehearing was the La Serena plant improvement project included in rate base totaling approximately \$3.5 million. As a result of the CPUC's decision in November 2010, GSWC had recorded a pretax charge of \$2.2 million during 2010, which included the disallowance of a portion of the La Serena capital costs and the related revenues earned on those capital costs to be refunded to customers. In March 2013, GSWC and the Division of Ratepayer Advocates ("DRA") reached a settlement agreement, subject to CPUC approval, to resolve all the issues in the rehearing. In March 2013, GSWC filed for CPUC approval of the settlement agreement. In anticipation of this settlement, GSWC recorded an additional pretax charge of \$416,000 in 2012, representing disallowed plant improvement project costs and related revenues earned on those costs that it expects will be refunded to customers based upon the terms of the settlement being discussed. The settlement agreement, if approved, would resolve all issues arising from the rehearing.

BVES General Rate Case

In February 2012, BVES filed its general rate case ("GRC") for new rates in years 2013 through 2016. In August 2012, DRA issued its report on the GRC. Included in DRA's recommendations was a \$2.0 million retroactive ratemaking proposal to increase BVES' accumulated depreciation balance to reflect adopted depreciation expense for the years 2009 through 2012 rather than actual depreciation expense as recorded in accordance with Generally Accepted Accounting Principles. DRA also recommended that one-half of deferred rate case costs be borne by shareholders, rather than entirely by customers, as has been authorized by the CPUC in prior rate cases. As of June 30, 2013, GSWC has a \$2.0 million regulatory asset representing deferred rate case costs for the current BVES general rate case, which the CPUC has historically allowed utilities to recover. If DRA prevails, GSWC may be required to record a charge to adjust accumulated depreciation and to write off half of its deferred rate case costs. GSWC believes DRA's recommendations are without merit and intends to vigorously defend its positions. At this time, GSWC does not believe a potential loss is probable, but is unable to predict the final outcome of these matters in the pending rate case.

Hearings on BVES' GRC, including the matters discussed above, were held in September 2012. In November 2012, GSWC filed a motion to introduce new information regarding the results of a study on mandatory testing of BVES's transmission and distribution poles to help support BVES' request for approval of additional capital expenditures. The administrative law judge assigned to this GRC re-opened the record to receive additional testimony based on this study, and to conduct additional evidentiary hearings. DRA has challenged the results of the study, and requested that

BVES provide additional information. Alternative dispute resolution meetings for the GRC are scheduled to be held in September 2013. A proposed decision for this GRC is expected later in 2013.

Renewables Portfolio Standard

In December 2011, a new renewables portfolio standard (“RPS”) law went into effect which changed, among other things, annual procurement targets to multi-year procurement targets. Under the RPS, BVES must procure sufficient RPS-eligible resources to meet: (i) any RPS procurement requirement deficit for any year prior to 2011, and (ii) RPS procurement requirements for the 2011 through 2013 compliance period by no later than December 31, 2013. BVES’ latest RPS reports under the new standards were submitted to the CPUC in December 2012, and did not reflect any RPS procurement deficiencies nor any potential or actual penalties. Accordingly, no provision for loss has been recorded in the financial statements as of June 30, 2013.

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In December 2012, GSWC entered into a ten-year agreement with a third party to purchase renewable energy credits (“RECs”). Under the terms of the agreement, GSWC would purchase approximately 582,000 RECs over a ten-year period which would be used towards meeting the CPUC’s RPS procurement requirements. In July 2013, the CPUC approved the agreement.

In July 2012, the CPUC also approved the purchase of REC's from the Los Angeles County Sanitation District. BVES intends to apply these RECS towards either its pre-2011 RPS requirements or its 2011 through 2013 requirements. The RECs will be included as part of the electric supply cost balancing account when the RECs are applied towards the RPS requirements during the fourth quarter of 2013.

In March 2013, BVES filed an application with the CPUC to recover \$835,000 (including interest) in additional costs incurred from April 1, 2011 through December 31, 2012 in connection with its efforts to procure renewable energy resources. In May 2013, the CPUC approved these costs and accordingly, BVES recorded a regulatory asset and a corresponding decrease to legal and outside services costs during the second quarter of 2013. The amount will be recovered through a 12-month surcharge. In March 2012, BVES had also received approval for recovery of \$1.2 million of costs in its efforts to procure renewable energy resources incurred during the period September 1, 2007 through March 31, 2011.

Note 3 — Earnings per Share/Capital Stock:

In accordance with the accounting guidance for participating securities and earnings per share (“EPS”), Registrant uses the “two-class” method of computing EPS. The “two-class” method is an earnings allocation formula that determines EPS for each class of common stock and participating security. AWR has participating securities related to its stock-based awards that earn dividend equivalents on an equal basis with AWR’s Common Shares (the “Common Shares”). In applying the “two-class” method, undistributed earnings are allocated to both common shares and participating securities.

The following is a reconciliation of Registrant’s net income and weighted average Common Shares outstanding for calculating basic net income per share:

Basic:	For The Three Months		For The Six Months	
	Ended June 30,	2012	Ended June 30,	2012
(in thousands, except per share amounts)	2013	2012	2013	2012
Net income	\$16,602	15,078	30,067	25,193
Less: (a) Distributed earnings to common shareholders	6,854	5,287	13,693	10,560
Distributed earnings to participating securities	95	38	181	68
Undistributed earnings	9,653	9,753		