

AMERICAN STATES WATER CO

Form 10-Q/A

December 31, 2008

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1 to Form 10-Q

(Mark One)

x

**Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

for the quarterly period ended September 30, 2008

or

o

**Transition report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

for the transition period from to

Commission file number 001-14431

American States Water Company

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(Exact Name of Registrant as Specified in Its Charter)

California

(State or Other Jurisdiction of Incorporation or Organization)

95-4676679

(IRS Employer Identification No.)

630 E. Foothill Blvd, San Dimas, CA

(Address of Principal Executive Offices)

91773-1212

(Zip Code)

(909) 394-3600

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Commission file number 001-12008

Golden State Water Company

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(Exact Name of Registrant as Specified in Its Charter)

California

(State or Other Jurisdiction of Incorporation or Organization)

95-1243678

(IRS Employer Identification No.)

630 E. Foothill Blvd, San Dimas, CA

(Address of Principal Executive Offices)

91773-1212

(Zip Code)

(909) 394-3600

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

American States Water Company
Golden State Water Company

Yes No
Yes No

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

American States Water Company

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

Golden State Water Company

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

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

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American States Water Company
Golden State Water Company

Yes No
Yes No

As of November 5, 2008, the number of Common Shares outstanding, of American States Water Company was 17,288,918 shares. As of November 5, 2008, all of the 134 outstanding Common Shares of Golden State Water Company were owned by American States Water Company.

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

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Explanatory Note

We are filing this Amendment No. 1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, which we originally filed with the Securities and Exchange Commission on November 7, 2008, to correct a typographical error in the date of the certification attached as Exhibit 31.2.1 to the original Form 10-Q included in Item 6. No revisions are being made to the Company's financial statements or any other disclosure contained in the Quarterly Report on Form 10-Q originally filed.

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AMERICAN STATES WATER COMPANY

and

GOLDEN STATE WATER COMPANY

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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"), Chaparral City Water Company (hereinafter "CCWC") 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 to the Notes to Consolidated Financial Statements and the heading entitled General in Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations. References in this report to Registrant are to AWR and GSWC collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than GSWC.

Forward-Looking Information

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Registrant believes, anticipates, expects or words of similar import. Similarly, statements that describe Registrant's future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning the ability to raise capital, capital expenditures, earnings, litigation, rates, water sales, water quality and other regulatory matters, adequacy of water supplies, the ability of GSWC and CCWC to recover electric, natural gas and water supply costs from ratepayers, contract operations, liquidity and capital resources, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as changes in utility regulation, including ongoing local, state and federal activities; recovery of regulatory assets not yet included in rates; future economic conditions which affect a variety of matters, including customer demand, water and energy supply costs and pension and post-retirement benefit costs; future weather and climatic conditions; the effects of conservation; delays in customer payments, processing of requests for equitable adjustments or price redeterminations on government contracts; potential assessments for failure to comply with the terms of contracts with the U.S.

government; and legislative, legal proceedings, regulatory and other circumstances affecting anticipated revenues and costs.

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**AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS**

ASSETS

(Unaudited)

(in thousands)	September 30, 2008	December 31, 2007
Utility Plant, at cost		
Water	\$ 1,043,539	\$ 982,708
Electric	65,566	65,078
	1,109,105	1,047,786
Less - Accumulated depreciation	(340,591)	(316,038)
	768,514	731,748
Construction work in progress	46,945	44,631
Net utility plant	815,459	776,379
Other Property and Investments		
Goodwill	12,393	11,354
Other property and investments	10,720	10,245
Total other property and investments	23,113	21,599
Current Assets		
Cash and cash equivalents	1,241	1,698
Accounts receivable-customers (less allowance for doubtful accounts of \$627 in 2008 and \$539 in 2007)	19,345	16,095
Unbilled revenue	19,777	16,035
Receivable from the U.S. government (less allowance for doubtful accounts of \$303 in 2008 and \$496 in 2007)	7,964	7,556
Other accounts receivable (less allowance for doubtful accounts of \$298 in 2008 and \$629 in 2007)	2,943	4,154
Income taxes receivable	2,528	60
Materials and supplies, at average cost	1,817	1,576
Regulatory assets - current	11,023	5,187
Prepayments and other current assets	1,943	2,765
Costs and estimated earnings in excess of billings on uncompleted contracts	5,599	3,842
Deferred income taxes - current	2,212	4,047
Total current assets	76,392	63,015
Regulatory and Other Assets		
Regulatory assets	77,385	82,539
Other accounts receivable	10,085	9,723
Costs and estimated earnings in excess of billings on uncompleted contracts	7,037	2,284
Deferred income taxes	209	28
Other	10,503	8,331
Total regulatory and other assets	105,219	102,905
Total Assets	\$ 1,020,183	\$ 963,898

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)	September 30, 2008	December 31, 2007
Capitalization		
Common shares, no par value, no stated value	\$ 184,520	\$ 181,796
Earnings reinvested in the business	126,481	120,333
Total common shareholders' equity	311,001	302,129
Long-term debt	266,945	267,226
Total capitalization	577,946	569,355
Current Liabilities		
Notes payable to banks	65,500	37,200
Long-term debt - current	618	609
Accounts payable	37,618	29,091
Income taxes payable		398
Accrued employee expenses	6,131	6,228
Accrued interest	5,230	2,467
Unrealized loss on purchased power contracts	788	1,554
Regulatory liabilities - current		173
Billings in excess of costs and estimated earnings on uncompleted contracts	5,280	2,641
Deferred income taxes - current	35	
Other	13,771	13,890
Total current liabilities	134,971	94,251
Other Credits		
Advances for construction	85,082	84,479
Contributions in aid of construction - net	100,865	98,657
Deferred income taxes	84,848	82,480
Unamortized investment tax credits	2,268	2,336
Accrued pension and other postretirement benefits	20,774	20,851
Regulatory liabilities	458	557
Billings in excess of costs and estimated earnings on uncompleted contracts	4,189	2,037
Other	8,782	8,895
Total other credits	307,266	300,292
Commitments and Contingencies (Note 7)		
Total Capitalization and Liabilities	\$ 1,020,183	\$ 963,898

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 SEPTEMBER 30, 2008 AND 2007

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended September 30,	
	2008	2007
Operating Revenues		
Water	\$ 69,365	\$ 65,445
Electric	6,743	6,289
Contracted services	9,153	4,108
Total operating revenues	85,261	75,842
Operating Expenses		
Water purchased	15,087	14,740
Power purchased for pumping	3,484	3,517
Groundwater production assessment	2,791	2,666
Power purchased for resale	3,345	3,176
Unrealized loss on purchased power contracts	3,741	896
Supply cost balancing accounts	(490)	(1,541)
Other operating expenses	7,366	7,004
Administrative and general expenses	16,307	11,789
Depreciation and amortization	7,882	7,439
Maintenance	4,027	3,897
Property and other taxes	3,461	2,820
ASUS construction expenses	5,117	1,903
Net loss on sale of property		11
Total operating expenses	72,118	58,317
Operating Income	13,143	17,525
Other Income and Expenses		
Interest expense	(5,428)	(5,347)
Interest income	293	590
Other	(30)	102
Total other income and expenses	(5,165)	(4,655)
Income from operations before income tax expense	7,978	12,870
Income tax expense	3,426	5,241
Net Income	\$ 4,552	\$ 7,629
Weighted Average Number of Shares Outstanding	17,268	17,197
Basic Earnings Per Common Share	\$ 0.26	\$ 0.44
Weighted Average Number of Diluted Shares	17,404	17,239
Fully Diluted Earnings Per Share	\$ 0.26	\$ 0.44

Dividends Declared Per Common Share	\$ 0.250	\$ 0.235
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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 NINE MONTHS
ENDED SEPTEMBER 30, 2008 AND 2007
(Unaudited)

(in thousands, except per share amounts)	Nine Months Ended September 30,	
	2008	2007
Operating Revenues		
Water	\$ 186,824	\$ 176,598
Electric	21,754	21,413
Contracted services	25,938	29,347
Total operating revenues	234,516	227,358
Operating Expenses		
Water purchased	36,119	35,690
Power purchased for pumping	7,819	8,308
Groundwater production assessment	8,056	7,494
Power purchased for resale	10,179	10,372
Unrealized gain on purchased power contracts	(766)	(1,578)
Supply cost balancing accounts	(1,269)	(3,451)
Other operating expenses	22,415	20,160
Administrative and general expenses	46,077	38,460
Depreciation and amortization	23,485	21,616
Maintenance	12,569	11,223
Property and other taxes	9,220	8,593
ASUS construction expenses	13,426	19,232
Net gain on sale of property		(594)
Total operating expenses	187,330	175,525
Operating Income	47,186	51,833
Other Income and Expenses		
Interest expense	(16,100)	(16,413)
Interest income	1,429	1,742
Other	91	234
Total other income and expenses	(14,580)	(14,437)
Income from operations before income tax expense	32,606	37,396
Income tax expense	13,467	15,461
Net Income	\$ 19,139	\$ 21,935
Weighted Average Number of Shares Outstanding	17,252	17,091
Basic Earnings Per Common Share	\$ 1.10	\$ 1.26
Weighted Average Number of Diluted Shares	17,378	17,132

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Fully Diluted Earnings Per Share	\$ 1.10	\$ 1.26
Dividends Declared Per Common Share	\$ 0.750	\$ 0.705

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

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AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2008	2007
Cash Flows From Operating Activities:		
Net income	\$ 19,139	\$ 21,935
Adjustments for non-cash items:		
Depreciation and amortization	23,485	21,616
Provision for doubtful accounts	661	562
Deferred income taxes and investment tax credits	4,276	2,090
Unrealized gain on purchased power contracts	(766)	(1,578)
Stock-based compensation expense	1,097	674
Net gain on sale of property		(594)
Other net	401	303
Changes in assets and liabilities:		
Accounts receivable - customers	(3,902)	(5,036)
Unbilled revenue	(3,742)	(3,003)
Other accounts receivable	855	428
Receivable from the U.S. government	(423)	173
Materials and supplies	(241)	(227)
Prepayments and other current assets	822	1,016
Regulatory assets - supply cost balancing accounts	(1,269)	(3,451)
Costs and estimated earnings in excess of billings on uncompleted contracts	(6,510)	(1,343)
Other assets	(1,719)	(1,572)
Accounts payable	6,168	1,295
Income taxes receivable/payable	(2,866)	1,342
Billings in excess of costs and estimated earnings on uncompleted contracts	4,791	383
Accrued pension and other postretirement benefits	(77)	815
Other liabilities	3,162	6,395
Net cash provided	43,342	42,223
Cash Flows From Investing Activities:		
Construction expenditures	(58,987)	(32,832)
Business acquisition	(2,298)	
Proceeds from sale of property		612
Net cash used	(61,285)	(32,220)
Cash Flows From Financing Activities:		
Proceeds from issuance of Common Shares	708	690
Proceeds from stock option exercises	666	3,097
Receipt of advances for and contributions in aid of construction	4,339	5,655
Refunds on advances for construction	(3,339)	(4,326)
Repayments of long-term debt	(272)	(273)
Net change in notes payable to banks	28,300	(3,000)
Dividends paid	(12,934)	(12,040)
Other	18	605
Net cash provided (used)	17,486	(9,592)
Net (decrease) increase in cash and cash equivalents	(457)	411

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Cash and cash equivalents, beginning of period	1,698	3,223
Cash and cash equivalents, end of period	\$ 1,241	\$ 3,634

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

Table of Contents**GOLDEN STATE WATER COMPANY****BALANCE SHEETS****ASSETS
(Unaudited)**

(in thousands)	September 30, 2008	December 31, 2007
Utility Plant, at cost		
Water	\$ 979,292	\$ 922,459
Electric	65,566	65,078
	1,044,858	987,537
Less - Accumulated depreciation	(321,505)	(298,856)
	723,353	688,681
Construction work in progress	45,299	43,552
Net utility plant	768,652	732,233
Other Property and Investments	7,739	7,838
Current Assets		
Cash and cash equivalents	532	1,389
Accounts receivable-customers (less allowance for doubtful accounts of \$603 in 2008 and \$519 in 2007)	18,929	15,741
Unbilled revenue	19,403	15,701
Inter-company receivable	148	563
Other accounts receivable (less allowance for doubtful accounts of \$275 in 2008 and \$442 in 2007)	2,044	3,195
Materials and supplies, at average cost	1,714	1,562
Regulatory assets - current	10,952	5,116
Prepayments and other current assets	1,746	2,595
Deferred income taxes - current	2,111	3,845
Total current assets	57,579	49,707
Regulatory and Other Assets		
Regulatory assets	77,385	82,539
Other accounts receivable	10,085	9,723
Other	9,588	7,933
Total regulatory and other assets	97,058	100,195
Total Assets	\$ 931,028	\$ 889,973

The accompanying notes are an integral part of these financial statements

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

(in thousands)	September 30, 2008	December 31, 2007
Capitalization		
Common shares, no par value, no stated value	\$ 194,381	\$ 163,180
Earnings reinvested in the business	127,277	115,261
Total common shareholder s equity	321,658	278,441
Long-term debt	260,660	260,941
Total capitalization	582,318	539,382
Current Liabilities		
Long-term debt - current	318	309
Accounts payable	31,011	24,402
Inter-company payable	11,145	23,764
Income taxes payable to Parent	790	2,469
Accrued employee expenses	5,420	5,677
Accrued interest	5,065	2,424
Unrealized loss on purchased power contracts	788	1,554
Regulatory liabilities - current		173
Deferred income taxes - current	70	
Other	13,353	13,459
Total current liabilities	67,960	74,231
Other Credits		
Advances for construction	80,303	78,917
Contributions in aid of construction - net	88,462	87,323
Deferred income taxes	80,962	78,805
Unamortized investment tax credits	2,268	2,336
Accrued pension and other postretirement benefits	20,774	20,851
Other	7,981	8,128
Total other credits	280,750	276,360
Commitments and Contingencies (Note 7)		
Total Capitalization and Liabilities	\$ 931,028	\$ 889,973

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 SEPTEMBER 30, 2008 AND 2007

(Unaudited)

(in thousands)	Three Months Ended September 30,	
	2008	2007
Operating Revenues		
Water	\$ 67,316	\$ 63,180
Electric	6,743	6,289
Total operating revenues	74,059	69,469
Operating Expenses		
Water purchased	14,889	14,472
Power purchased for pumping	3,293	3,319
Groundwater production assessment	2,791	2,666
Power purchased for resale	3,345	3,176
Unrealized loss on purchased power contracts	3,741	896
Supply cost balancing accounts	(490)	(1,541)
Other operating expenses	6,055	5,943
Administrative and general expenses	13,054	9,997
Depreciation and amortization	7,252	6,925
Maintenance	3,289	3,706
Property and other taxes	2,791	2,738
Net loss on sale of property		11
Total operating expenses	60,010	52,308
Operating Income	14,049	17,161
Other Income and Expenses		
Interest expense	(5,018)	(4,995)
Interest income	284	570
Other	(22)	77
	(4,756)	(4,348)
Income from operations before income tax expense	9,293	12,813
Income tax expense	3,945	5,205
Net Income	\$ 5,348	\$ 7,608

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2008 AND 2007
(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2008	2007
Operating Revenues		
Water	\$ 181,235	\$ 170,762
Electric	21,754	21,413
Total operating revenues	202,989	192,175
Operating Expenses		
Water purchased	35,572	35,058
Power purchased for pumping	7,365	7,841
Groundwater production assessment	8,056	7,494
Power purchased for resale	10,179	10,372
Unrealized gain on purchased power contracts	(766)	(1,578)
Supply cost balancing accounts	(1,269)	(3,451)
Other operating expenses	17,799	17,274
Administrative and general expenses	36,655	33,168
Depreciation and amortization	21,746	20,214
Maintenance	10,408	10,513
Property and other taxes	8,200	8,300
Net gain on sale of property		(594)
Total operating expenses	153,945	144,611
Operating Income	49,044	47,564
Other Income and Expenses		
Interest expense	(15,035)	(15,196)
Interest income	1,370	1,631
Other	69	176
	(13,596)	(13,389)
Income from operations before income tax expense	35,448	34,175
Income tax expense	14,576	14,195
Net Income	\$ 20,872	\$ 19,980

The accompanying notes are an integral part of these financial statements

Table of Contents**GOLDEN STATE WATER COMPANY****STATEMENTS OF CASH FLOW****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007****(Unaudited)**

(in thousands)	Nine Months Ended September 30,	
	2008	2007
Cash Flows From Operating Activities:		
Net income	\$ 20,872	\$ 19,980
Adjustments for non-cash items:		
Depreciation and amortization	21,746	20,214
Provision for doubtful accounts	628	383
Deferred income taxes and investment tax credits	4,180	2,214
Unrealized gain on purchased power contracts	(766)	(1,578)
Stock-based compensation expense	940	609
Net gain on sale of property		(594)
Other net	377	276
Changes in assets and liabilities:		
Accounts receivable - customers	(3,810)	(4,837)
Unbilled revenue	(3,702)	(2,874)
Other accounts receivable	783	167
Materials and supplies	(152)	(227)
Prepayments and other current assets	849	1,029
Regulatory assets - supply cost balancing accounts	(1,269)	(3,451)
Other assets	(1,524)	(1,643)
Accounts payable	4,236	2,442
Inter-company receivable/payable	338	(1,012)
Income taxes payable from Parent	(1,679)	262
Accrued pension and other postretirement benefits	(77)	815
Other liabilities	3,032	6,297
Net cash provided	45,002	38,472
Cash Flows From Investing Activities:		
Construction expenditures	(55,455)	(31,501)
Proceeds from sale of property		612
Net cash used	(55,455)	(30,889)
Cash Flows From Financing Activities:		
Proceeds from issuance of Common Shares to Parent	30,000	
Receipt of advances for and contributions in aid of construction	4,197	5,303
Refunds on advances for construction	(3,047)	(4,126)
Repayments of long-term debt	(272)	(273)
Net change in inter-company borrowings	(12,510)	4,400
Dividends paid	(8,800)	(12,900)
Other	28	549
Net cash provided (used)	9,596	(7,047)
Net (decrease) increase in cash and cash equivalents	(857)	536
Cash and cash equivalents, beginning of period	1,389	1,735

Cash and cash equivalents, end of period	\$ 532	\$ 2,271
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The accompanying notes are an integral part of these financial statements

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

(Unaudited)

Note 1 Summary of Significant Accounting Policies:

General / Nature of Operations: American States Water Company (AWR) is the parent company of Golden State Water Company (GSWC), Chaparral City Water Company (CCWC) and American States Utility Services, Inc. (ASUS) and its subsidiaries, Fort Bliss Water Services Company (FBWS), Terrapin Utility Services, Inc. (TUS), Old Dominion Utility Services, Inc. (ODUS), Palmetto State Utility Services, Inc. (PSUS) and Old North Utility Services, Inc. (ONUS). GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 255,000 water customers. GSWC also distributes electricity in several San Bernardino Mountain communities serving approximately 23,000 electric customers. The California Public Utilities Commission (CPUC) regulates GSWC 's water and electric business, including properties, rates, services, facilities and other matters. CCWC is a public utility regulated by the Arizona Corporation Commission (ACC) serving over 13,000 customers in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. ASUS performs water and wastewater related services and operations on a contract basis. There is no direct regulatory oversight by either the CPUC or the ACC of the operation or rates of the contracted services provided by ASUS and its wholly owned subsidiaries or by AWR. The consolidated financial statements include the accounts of AWR, GSWC, CCWC and ASUS and its subsidiaries. AWR 's assets, revenues and operations are primarily those of GSWC.

ASUS, through its wholly-owned subsidiaries, has entered into agreements with the U.S. government to operate and maintain the water and/or wastewater systems at various military bases pursuant to 50-year fixed price contracts, which are subject to periodic price redeterminations and modifications for changes in circumstances. In September and October of 2007, ASUS was awarded contracts to operate and maintain the water and wastewater systems at Fort Jackson, South Carolina and at Fort Bragg/Pope AFB, North Carolina, respectively. These contracts have substantially similar terms as the agreements previously executed by ASUS with the U.S. government. PSUS commenced operations at Fort Jackson on January 2, 2008 and ONUS commenced operations at Fort Bragg on March 1, 2008, both following the expiration of transition periods.

Basis of Presentation: The consolidated financial statements of AWR include the accounts of AWR and its subsidiaries, all of which are wholly owned. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Inter-company transactions and balances have been eliminated in the AWR consolidated financial statements. Investments in partially-owned affiliates are accounted for by the equity method when Registrant 's ownership interest exceeds 20%. The consolidated financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America for annual financial

statements have been condensed or omitted pursuant to such rules and regulations. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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, 2007 filed with the SEC.

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GSWC's Related Party Transactions: GSWC and other subsidiaries provide and receive various services to and from their parent, AWR, and among themselves. On August 25, 2008, AWR amended its \$85 million syndicated credit facility, to increase the aggregate bank commitments by \$30 million to \$115 million. AWR borrows under this facility and provides funds to its subsidiaries, including GSWC, in support of their operations. GSWC also has the right to obtain letters of credit under this facility. Amounts owed to AWR by GSWC for borrowings under this facility represent the majority of GSWC's inter-company payables on GSWC's balance sheets as of September 30, 2008 and December 31, 2007. The interest rate charged to GSWC is sufficient to cover AWR's interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to its affiliates using allocation factors agreed upon by the CPUC.

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 \$718,000 and \$716,000 for the three months ended September 30, 2008 and 2007, respectively, and \$2,052,000 and \$2,069,000 for the nine months ended September 30, 2008 and 2007, 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.

New Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB delayed the effective date of SFAS No. 157 for certain nonfinancial assets and liabilities until January 1, 2009. These nonfinancial items include assets and liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis, such as Registrant's reporting units measured at fair value in a goodwill impairment test and asset retirement obligations. As it applies to its financial instruments, Registrant implemented the new standard effective January 1, 2008. The partial adoption of SFAS No. 157 for financial assets and liabilities did not have any impact on Registrant's consolidated financial position, results of operations or cash flows. However, it does require additional disclosures. See Note 4 for information and related disclosures regarding the fair value measurements on Registrant's derivatives. The carrying value of other financial assets and liabilities, including cash, accounts receivable, accounts payable and short-term debt, approximate fair value due to their short maturities or variable-rate nature of the respective borrowings. Long-term debt is not carried at fair value, but SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* requires fair value disclosure on an annual basis. Registrant's pension and postretirement plan assets are comprised of actively traded debt and equity securities, and therefore the market related value is equal to the fair value of plan assets which is used to compute the funded status recognized in Registrant's financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. The election to measure

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a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between carrying value and fair value at the election date is recorded as a transition adjustment to beginning retained earnings. Subsequent changes in fair value are recognized in earnings. SFAS No. 159 also establishes additional disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar type assets and liabilities. SFAS No. 159 was effective for Registrant's fiscal year beginning January 1, 2008. Registrant has not elected to apply the fair value option to any of its financial assets and liabilities. Therefore, the adoption of SFAS No. 159 did not have any impact on Registrant's consolidated financial position, results of operations or cash flows.

In March 2007, the FASB Emerging Issues Task Force (EITF) issued EITF No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment* , which concludes that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees and directors for equity classified as nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital. Registrant has commenced recognizing this tax

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benefit as an increase in additional paid-in capital beginning January 1, 2008. The impact of this change was not material to Registrant's consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 110, *Share-Based Payment* . Effective January 1, 2008, Registrant adopted the guidance of SAB No. 110, which requires Registrant to develop expected option terms by reviewing detailed external information about employee exercise behavior. The simplified method is no longer permitted if such information is available. As a result of the new guidance, Registrant's expected term used for options granted in 2008 was 5 years as compared to 6 years which was derived under the simplified method used for grants in prior years.

In December 2007, the FASB issued SFAS No. 141(R) (revised 2007), *Business Combinations* . SFAS No. 141(R) which establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations Registrant engages in will be recorded and disclosed following existing accounting standards until January 1, 2009.

In December 2007, the FASB also issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* . The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations. SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Registrant is evaluating the potential impact of SFAS No. 160; however, this standard is not expected to have any material impact on Registrant's future consolidated financial statements and disclosures.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Ins*