American Water Works Company, Inc.
Form S-1/A
October 11, 2007
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As filed with the Securities and Exchange Commission on October 11, 2007.

Registration No. 333-145725

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to

Form S-1

REGISTRATION STATEMENT UNDER

THE SECURITIES ACT OF 1933

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	4941	51-0063696
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1025 Laurel Oak Road

Voorhees, NJ 08043

(856) 346-8200

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Donald L. Correll

President and Chief Executive Officer

American Water Works Company, Inc.

1025 Laurel Oak Road

Voorhees, NJ 08043

(856) 346-8200

(Name and address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

William V. Fogg, Esq.	**George W. Patrick, Esq.**	**Robert E. Buckholz, Jr., Esq.**
Cravath, Swaine & Moore LLP	**Senior Vice President and General Counsel**	**Sullivan & Cromwell LLP**
Worldwide Plaza	**American Water Works Company, Inc.**	**125 Broad Street**
825 Eighth Avenue	**1025 Laurel Oak Road**	**New York, NY 10004**
New York, NY 10019	**Voorhees, NJ 08043**	**(212) 558-4000**
(212) 474-1000	**(856) 346-8200**	

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee**
Common Stock, par value $1.00 per share	$1,500,000,000	$46,050.00(3)

(1) Includes shares to be sold upon exercise of the underwriters option to purchase additional shares. See Underwriting.

(2) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(o) of Regulation C under the Securities Act of 1933, as amended.

(3) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. The selling stockholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities, and we and the selling stockholder are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

Subject to Completion, dated October 11, 2007.

(Preliminary Prospectus)

Shares

American Water Works Company, Inc.

Common Stock

This is an initial public offering of common stock of American Water Works Company, Inc. The selling stockholder is selling all of the shares in the offering. We will not receive any of the proceeds from the sale of shares by the selling stockholder.

Concurrently with this offering, we are offering by separate prospectus $ million of our equity units. This offering of common stock is not contingent upon the consummation of our offering of equity units.

The initial public offering price per share of the common stock is currently estimated to be between $ and $. We intend to apply to list our common stock for trading on the New York Stock Exchange under the symbol AWK.

Investing in our common stock involves risks. See Risk Factors beginning on page 10 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission, any state securities commission or any other regulatory body has approved or disapproved of these securities or passed on the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to the selling stockholder	$	$

The underwriters may also purchase up to an additional shares of common stock from the selling stockholder at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus.

The underwriters expect to deliver the shares against payment in New York, New York on , 2007.

Goldman, Sachs & Co.	Citi	Merrill Lynch & Co.

Prospectus dated , 2007.

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Our regulated subsidiaries are subject to economic regulation by state PUCs in Arizona, California, Hawaii, Illinois, Indiana, Iowa, Kentucky, Maryland, Missouri, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Tennessee, Texas, Virginia and West Virginia. Some of these states have enacted laws that require regulatory approval for the acquisition of control of any regulated utility. In those states, obtaining control of the parent or any other company that controls a regulated utility also requires prior regulatory approval. The threshold for a change in control is a fact-specific inquiry that varies by state. For example, in some states, a presumption of control will arise when an acquiring party acquires more than 9.9% of the voting securities of the regulated utility or the controlling entity. In addition to ownership, other states may analyze the degree of influence or control an acquiror may exert over the company. Any person acquiring our common stock in this offering, through the concurrent offering of our equity units or in any other purchase of our common stock in a quantity sufficient to trigger a change in control under state law would need the prior approval of the applicable state PUC.

Dealer Prospectus Delivery Obligation

Through and including , 2007 (the 25th day after the date of this prospectus), all dealers that effect transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It may not contain all the information that is important to you. You should carefully read this entire prospectus, including the section captioned Risk Factors and the consolidated financial statements and notes to the consolidated financial statements, before making an investment decision. For the definition of certain terms used in this prospectus, please refer to the definitions set forth in the Glossary.

Our Company

Founded in 1886, American Water Works Company, Inc., which we refer to, together with its subsidiaries, as American Water or the Company, is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our nearly 6,900 employees provide approximately 16.2 million people with drinking water, wastewater and other water-related services in 32 states and Ontario, Canada.

Our primary business involves the ownership of regulated water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers, treating and delivering over one billion gallons of water per day. Our subsidiaries that provide these services are generally subject to economic regulation by state Public Utility Commissions, which we refer to as state PUCs, in the states in which they operate. In 2006, we generated $2,093.1 million in total operating revenue, representing approximately four times the operating revenue of the next largest investor-owned company in the United States water and wastewater business, $252.5 million in operating income, which includes $221.7 million of impairment charges relating to continuing operations, and a net loss of $162.2 million. Our Regulated Businesses, operating in 20 states in the United States, generated 88.6% of our total operating revenue in 2006.

We also provide services that are not subject to economic regulation by state PUCs. Our Non-Regulated Businesses include our Contract Operations Group, our Applied Water Management Group and our Homeowner Services Group. In 2006, our Non-Regulated Businesses generated $248.5 million in operating revenue, prior to inter-segment eliminations.

Our Industry

The United States water and wastewater industry has two main segments: (i) utility, which involves supplying water and wastewater services to customers, and (ii) general services, which involves providing water and wastewater-related services, including engineering, consulting and sales of water infrastructure and distribution products, such as pipes, to water and wastewater utilities and other consumers on a fee-for-service contract basis.

The utility segment includes municipal systems, which are owned and operated by local governments, and investor-owned systems. Government-owned systems make up the vast majority of the United States water and wastewater utility segment, accounting for approximately 84% of all United States community water systems and approximately 98% of all United States community wastewater systems.

The utility segment is characterized by high barriers to entry, including high capital spending requirements. Investor-owned water and wastewater utilities also face regulatory approval processes in order to do business, which may involve obtaining relevant operating approvals, including certificates of public convenience and necessity (or similar authorizations), pursuant to which state PUCs grant investor-owned utilities the right to provide service within an authorized service area. The utility segment of the United States water and wastewater industry is highly fragmented, with approximately 53,000 community water systems and approximately 16,000 community wastewater facilities, according to the United States Environmental Protection Agency, or EPA, and therefore presents opportunities for consolidation. Larger utilities, such as ours, that have greater access to capital are generally more capable of making mandated and other necessary infrastructure upgrades to water and wastewater systems.

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Our Strengths

We believe that we are distinguished by the following key competitive strengths:

Market leader with broad national footprint and strong local presence. We are the largest and most geographically diversified investor-owned water and wastewater utility company in the United States. Our scale and geographic scope enable us to capitalize effectively on growth opportunities across our service areas, while helping to insulate us from adverse conditions in any one geographic area.

- *Regulatory, weather and economic diversity.* Our presence in numerous jurisdictions and localities across the United States promotes more stable and predictable financial performance across our overall business.
- *Economies of scale.* Our scale and long-standing history with suppliers provide us with a competitive advantage in procuring goods and services reliably and economically.
- *Active community involvement supports customer satisfaction*. We establish an active presence in the local communities where we operate to better serve our customers. We work closely with these communities to help create detailed water development plans, collaborate on growth initiatives and implement various water infrastructure and conservation projects.

Regulated Businesses provide financial stability. Our core Regulated Businesses, which consist of locally managed utility subsidiaries that generally are economically regulated by the states in which they operate, accounted for approximately 88.6% of our consolidated operating revenue in 2006. Our Regulated Businesses provide a high degree of financial stability because (i) high barriers to entry insulate us from competitive pressures, (ii) economic regulation promotes predictability in financial planning and long-term performance through the rate-setting process and (iii) our largely residential customer base promotes consistent operating results.

Experience in securing appropriate rates of return and promoting constructive regulatory frameworks. We seek appropriate rates of return on our investment and a return of our investment and recovery of prudently incurred operating expenses from state PUCs in the form of rate increases, which we refer to as rate relief. We have a strong track record of providing reliable service at cost-effective rates, which has typically resulted in high customer satisfaction and has generally allowed us to maintain positive relations with local communities and regulators. We have generally been granted rate relief in a timely manner after application, and prior to our acquisition by RWE, we often were successful in securing appropriate rate relief when we filed rate cases. In the period following RWE s acquisition of the Company, as a condition to the approval of the acquisition, we agreed with some state PUCs that we would not file rate cases for specified periods of time, also known as rate stay-outs. As of June 30, 2007, all rate stay-out provisions had expired.

Significant growth opportunities with a low risk business profile. We believe we are well positioned to benefit from favorable industry dynamics in the water and wastewater sectors, which provide significant opportunities for future growth in both our Regulated Businesses and complementary Non-Regulated Businesses.

- *Replacement of aging infrastructure*. We intend to invest capital prudently to enable us to continue to provide essential services to our regulated water and wastewater utility customers and to assist municipalities in meeting the capital challenges of making substantial required infrastructure upgrades.
- *Fragmented industry provides consolidation opportunities*. The presence of our Regulated Businesses in 20 states provides a large platform on which to grow both organically and through consolidation from among the numerous community wastewater systems in the United States.

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Opportunities for non-regulated growth. Our public/private partnership expertise and national footprint increases our ability to make opportunistic investments in non-regulated businesses that are complementary to our Regulated Businesses.

Experienced senior management team. Our three senior managers have an average of 27 years of experience in the utilities industry. Donald L. Correll, our President and Chief Executive Officer, Ellen C. Wolf, our Senior Vice President and Chief Financial Officer, and John S. Young, our Chief Operating Officer, have all held senior management positions at publicly traded companies. Our 12 state presidents have an average of 24 years of experience in the utilities industry.

Industry leader in water quality, testing and research. We are experts in water quality testing, compliance and treatment and have established and own industry-leading water testing facilities. Our technologically advanced quality control and testing laboratory in Belleville, Illinois is certified in 24 states. Our laboratories and other facilities perform more than one million water quality tests per year.

Our Strategy

Our goal is to consistently provide customers with safe, high quality drinking water and reliable water and wastewater services. Our business strategies include:

- continuing to prudently invest in regulated water and wastewater infrastructure projects;
- earning an appropriate rate of return on our investments from state PUCs;
- growing our Regulated Businesses through acquisitions; and
- continuing to pursue public/private partnerships, including O&M and military contracts and services, and other non-regulated businesses that are complementary to our Regulated Businesses.

The Transactions

American Water is currently an indirect wholly owned subsidiary of RWE Aktiengesellschaft, a stock corporation incorporated in the Federal Republic of Germany whose shares are publicly listed on the Frankfurt and Düsseldorf stock exchanges and other German stock exchanges as well as on the Zurich stock exchange, which we refer to as RWE. RWE is one of Europe s leading electricity and gas companies and supplies 20 million customers with electricity and 10 million customers with gas in Germany, the United Kingdom and Central and Eastern Europe. On November 4, 2005, RWE announced its intention to exit its water activities in the United States and the United Kingdom to focus on its core European electricity and gas business and has since then completed the divestiture of its water business in the United Kingdom. As a part of this strategy, RWE intends to fully divest its ownership of American Water through the consummation of one or more public offerings of common stock of American Water as soon as reasonably practicable, subject to market conditions, which we refer to as the RWE Divestiture. On September 28, 2007, Thames Water Aqua US Holdings, Inc., at the time an indirect wholly owned subsidiary of RWE, which we refer to as Thames US Holdings, was merged with and into American Water with American Water being the surviving entity, which we refer to as the Merger.

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Prior to this offering we will effect a -for- stock split.

On September 20, 2007, we issued $1,750.0 million of debt to RWE, which we refer to as the RWE redemption notes, which was used to fund the early redemption of $1,750.0 million of preferred stock held by RWE. In addition, prior to the consummation of this offering, we intend to use the net proceeds from the issuance of approximately $1,500.0 million aggregate principal amount of senior notes, which we refer to as the new senior notes, to fund the repayment of $1,270.1 million aggregate principal amount of RWE redemption notes and $222.0 million (including after tax gains of $1.3 million) aggregate principal amount of other debt owed to RWE, which we refer to as the RWE notes. The new senior notes will not be registered under the Securities Act and will be offered in reliance on an exemption from the registration requirements of the Securities Act. Concurrently with the offering, we intend to use a portion of the net proceeds from the issuance of approximately $500.0 million of equity units to fund the repayment of approximately $479.9 million of RWE redemption notes, with the balance of the net cash proceeds of approximately $4.3 million to be used for general corporate purposes. These transactions, together with the non-cash equity contribution to the Company by RWE of $1,194.5 million of debt of our subsidiaries held by RWE on December 15, 2006, the non-cash equity contribution to the Company by RWE of $100.0 million of debt of our subsidiaries held by RWE on March 29, 2007 and the $550.0 million cash equity contribution to the Company by RWE on March 29, 2007, which was used to pay down $232.5 million of short-term debt and the remainder used for general working capital purposes, are collectively referred to as the Refinancing. The Refinancing, the Merger and the -for- split of common stock are collectively referred to in this prospectus as the Transactions.

Organizational Structure

American Water is currently a direct wholly owned subsidiary of Thames Water Aqua Holdings GmbH, which we refer to as the selling stockholder, a limited liability company organized under the laws of the Federal Republic of Germany and a direct wholly owned subsidiary of RWE. The following chart sets forth our organizational structure after giving effect to the consummation of the Transactions:

* Assumes that RWE, through its subsidiary Thames Water Aqua Holdings GmbH, will sell its shares of our common stock in more than one offering.

The Selling Stockholder

All of our issued and outstanding common stock is currently owned by the selling stockholder, Thames Water Aqua Holdings GmbH, a limited liability company organized under the laws of the Federal Republic of Germany and a direct wholly owned subsidiary of RWE. Upon consummation of this offering, the selling stockholder will continue to own % of our outstanding common stock (assuming no exercise of the underwriters option to purchase additional shares). RWE intends to fully divest its ownership of American Water as soon as reasonably practicable, subject to market conditions.

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Our Executive Offices

We are a corporation incorporated under the laws of Delaware. Our principal executive offices are located at 1025 Laurel Oak Road, Voorhees, NJ 08043. Our telephone number is (856) 346-8200. Our internet address is www.amwater.com. **The information contained on or accessible from our website does not constitute a part of this prospectus and is not incorporated by reference herein.**

American Water and its logos are our trademarks. Other service marks, trademarks and trade names referred to in this prospectus are the property of their respective owners.

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THE OFFERING

Common stock offered by the selling stockholder	shares
Common stock to be outstanding after this offering	shares
Option to purchase additional shares	The underwriters have an option to purchase a maximum of additional shares from the selling stockholder.
Use of proceeds	We will not receive any proceeds from this offering. See Use of Proceeds.
Equity units offering	We are also offering in a concurrent offering by separate prospectus $ million of our equity units. Each equity unit will have a stated amount of $50 and will consist of a contract obligating the purchaser to purchase shares of common stock and a fixed-rate senior note initially due . We will only proceed with our sale of equity units if market conditions are attractive to us. Therefore, you should not assume that we will consummate our offering of equity units. This offering of common stock is not contingent on our offering of equity units.
Listing	We will apply to list our common stock and our equity units, or certain components thereof, on the New York Stock Exchange, or NYSE, under the symbols AWK and , respectively.
Dividend policy	We intend to pay quarterly cash dividends at an initial rate of approximately $ per share per annum on our common stock commencing in the first quarter following the completion of this offering. The declaration, payment and amount of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend on many factors, including our financial condition and results of operations, liquidity requirements, capital requirements of our subsidiaries, legal requirements, regulatory constraints and other factors our board of directors deems relevant.
Risk factors	See Risk Factors for a discussion of factors you should consider before investing in our common stock.

All information in this prospectus, unless otherwise indicated or the context otherwise requires:

- assumes the common stock will be sold at $ per share (the midpoint of the price range set forth on the cover of this prospectus);
- assumes no exercise of the underwriters option to purchase additional shares;

gives effect to the for stock split to be effected prior to this offering; and

excludes, (i) shares of common stock issuable in connection with the concurrent equity units offering, (ii) shares of common stock reserved for issuance under our 2007 Omnibus Equity Compensation Plan (of which and of which will be granted to key employees upon the consummation of the offering in the form of restricted stock and stock options, respectively) and (iii) shares reserved for issuance under an employee stock purchase plan that the Company is considering establishing following the consummation of this offering.

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SUMMARY HISTORICAL CONSOLIDATED AND UNAUDITED PRO FORMA FINANCIAL DATA

The following table presents our summary historical consolidated financial data and summary unaudited pro forma consolidated financial data, at the dates and for the periods indicated. The historical data as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 have been derived from our audited historical consolidated financial statements and the notes to those statements included elsewhere in this prospectus. See footnote 1 to the table below. The historical data as of June 30, 2007 and for the six months ended June 30, 2006 and 2007 have been derived from our unaudited historical consolidated financial statements and the notes to those statements included elsewhere in this prospectus. Operating results for the six months ended June 30, 2006 and 2007 have been prepared on a basis consistent with our audited consolidated financial statements and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of any interim period are not necessarily indicative of the results that may be expected for any other interim period or for the entire fiscal year.

The summary unaudited pro forma financial data have been derived from our historical financial statements and adjusted to give effect to the Transactions. The summary unaudited pro forma financial data have been prepared to give effect to the Transactions as if they had occurred on January 1, 2006, in the case of the summary unaudited pro forma statement of operations data, and on June 30, 2007, in the case of the summary unaudited pro forma balance sheet data. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. The summary unaudited pro forma financial data are for informational purposes only and do not purport to represent what our results of operations or financial position actually would have been if the Transactions had occurred at any date, and such data do not purport to project the results of operations for any future period. See Unaudited Pro Forma Condensed Consolidated Financial Information.

Our historical financial data are not necessarily indicative of our future performance or what our financial position and results of operations would have been if we had operated as a separate, stand-alone entity during the periods shown. Because the data in this table is only a summary and does not provide all of the data contained in our financial statements, the information should be read in conjunction with Use of Proceeds, Capitalization, Unaudited Pro Forma Condensed Consolidated Financial Information, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes thereto appearing elsewhere in this prospectus.

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	For the years ended December 31, 2004	2005	2006	For the six months ended June 30, 2006 (unaudited)	2007 (unaudited)	Pro forma for the year ended December 31, 2006 (unaudited)	Pro forma for the six months ended June 30, 2007 (unaudited)
	(dollars in thousands, except for share and per share data)						
Statement of operations data(1):							
Operating revenues	$ 2,017,871	$ 2,136,746	$ 2,093,067	$ 1,007,691	$ 1,027,277	$ 2,093,067	$ 1,027,277
Operating expenses							
Operation and maintenance	1,121,970	1,201,566	1,174,544	562,072	581,999	1,176,244	582,509
Depreciation and amortization	225,260	261,364	259,181	128,728	132,764	259,181	132,764
General taxes	170,165	183,324	185,065	94,756	93,819	185,065	93,819
Loss (gain) on sale of assets(2)	(8,611)	(6,517)	79	(1,795)	(6,113)	79	(6,113)
Impairment charges	78,688	385,434	221,685			221,685	
Total operating expenses, net	1,587,472	2,025,171	1,840,554	783,761	802,469	1,842,254	802,979
Operating income (loss)	430,399	111,575	252,513	223,930	224,808	250,813	224,298
Other income (deductions)							
Interest	(315,944)	(345,257)	(365,970)	(178,968)	(142,970)	(297,067)	(141,759)
Amortization of debt expense	(3,377)	(4,367)	(5,062)	(1,678)	(2,397)	(6,030)	(2,881)
Other, net(3)	14,350	13,898	9,581	4,927	7,351	9,581	7,351
Total other income (deductions)	(304,971)	(335,726)	(361,451)	(175,719)	(138,016)	(293,516)	(137,289)
Income (loss) from continuing operations before income taxes	125,428	(224,151)	(108,938)	48,211	86,792	(42,703)	87,009
Provision for income taxes	66,328	50,979	46,912	20,056	34,378	73,106	34,463
Income (loss) from continuing operations	$ 59,100	$ (275,130)	$ (155,850)	$ 28,155	$ 52,414	$ (115,809)	$ 52,546
Income (loss) from continuing operations per basic common share(4)(5)	$ 59,100	$ (275,130)	$ (155,850)	$ 28,155	$ 52,414		
Income (loss) from continuing operations per diluted common share(4)(5)	$ 59,100	$ (275,130)	$ (155,850)	$ 28,155	$ 52,414		
Basic weighted average common shares	1,000	1,000	1,000	1,000	1,000		
Diluted weighted average common shares	1,000	1,000	1,000	1,000	1,000		
Other data(1):							
Cash flows provided by (used in):							
Operating activities	$ 458,408	$ 525,435	$ 323,748	$ 66,723	$ 136,181		
Investing activities	(545,903)	(530,165)	(691,438)	(241,724)	(279,441)		
Financing activities	95,254	(9,049)	332,367	133,391	164,951		
Construction expenditures	(546,241)	(558,446)	(688,843)	(235,818)	(307,726)		

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	As of December 31, 2005	As of December 31, 2006	As of June 30, 2007 (unaudited)	Pro forma as of June 30, 2007 (unaudited)
	(dollars in thousands)			
Balance sheet data(1):				
Cash and cash equivalents	$ 65,077	$ 29,754	$ 51,445	$ 55,719
Utility plant at original cost, net of accumulated depreciation	8,101,769	8,605,341	8,806,066	8,806,066
Goodwill	3,181,570	2,962,493	2,962,564	2,962,564
Total assets	12,542,029	12,783,059	13,071,585	13,088,159
Redeemable preferred stock at redemption value(6)	1,774,691	1,774,475	1,774,299	24,299
Other long-term debt	3,011,827	3,096,404	3,335,579	5,254,579
Other short-term and current portion of long-term debt(7)	2,018,251	1,007,128	253,242	112,242
Total debt	6,804,769	5,878,007	5,363,120	5,391,120
Common stockholder s equity	2,804,716	3,817,397	4,520,149	4,484,793
Preferred stock without mandatory redemption requirements(6)	4,571	4,568	4,568	4,568

(1) On September 28, 2007, Thames US Holdings was merged with and into American Water, with American Water as the surviving entity. American Water is an indirect wholly owned subsidiary of RWE. The historical consolidated financial statements of American Water represent the consolidated results of the Company, formerly issued under the name Thames Water Aqua US Holdings, Inc. and Subsidiary Companies.

(2) Represents primarily losses (gains) on sales of publicly traded securities and dispositions of assets not needed in utility operations.

(3) Includes allowance for other funds used during construction, allowance for borrowed funds used during construction and preferred dividends of subsidiaries.

(4) The number of common shares used to compute net income per basic share and net income per diluted share for the fiscal years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2006 and 2007 is 1,000 (the number of shares outstanding during such period) as no dilutive options or instruments were outstanding during these periods.

(5) The number of common shares used to compute net income per basic share is , which gives effect to the -for- stock split to be effected prior to the offering. Net income per diluted share also gives effect to all restricted stock units and stock options to be granted under our 2007 Omnibus Equity Compensation Plan to our executive officers and certain key employees upon the consummation of this offering as if they were exercised or converted into common stock using the treasury method. Incremental common shares included in diluted earnings per share are .

(6) Includes preferred stock held by RWE and other preferred stock issued by subsidiaries of the Company.

(7) Includes the short-term portion of redeemable preferred stock of $0.6 million.

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RISK FACTORS

An investment in our common stock involves risk. Before you decide to purchase our common stock, you should carefully consider these risk factors together with all of the other information included in this prospectus, including the information contained in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements included elsewhere in this prospectus and the notes thereto. If any of the following risks actually occurs, our business, financial condition, operating results and prospects could be adversely affected, which in turn could adversely affect the value of our common stock.

Risks Related to Our Industry and Business

Our utility operations are heavily regulated. Decisions by state PUCs and other regulatory agencies can significantly affect our business and results of operations.

Our Regulated Businesses provide water and wastewater services to our customers through subsidiaries economically regulated by state PUCs. Economic regulation affects the rates we charge our customers and has a significant effect on our business and results of operations. Generally, the state PUCs authorize us to charge rates that they determine are sufficient to recover our prudently incurred operating expenses, to enable us to finance the addition of new, or the replacement of existing, water and wastewater infrastructure and to allow us the opportunity to earn what they determine to be an appropriate rate of return on our invested capital and a return of our invested capital.

Our ability to meet our financial objectives depends upon the rates authorized by the various state PUCs. We periodically file rate increase applications with state PUCs. The ensuing administrative process may be lengthy and costly. We can provide no assurances that our rate increase requests will be granted. Even if approved, there is no guarantee that approval will be given in a timely manner or at a sufficient level to cover our expenses, the recovery of our investment and/or provide us an opportunity to earn an appropriate rate of return on our investment and a return of our investment. If the authorized rates are insufficient to cover operating expenses, to allow for the recovery of our investment and to provide an appropriate return on invested capital, or if the rate increase decisions are delayed, our financial condition, results of operations, cash flow and liquidity may be adversely affected. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on our invested capital and a return of our invested capital that are permitted by the state PUC.

Our operations and the quality of water we supply are subject to extensive environmental laws and regulations. Our operating costs have increased, and are expected to continue to increase, as a result of complying with environmental laws and regulations. We also could incur substantial costs as a result of violations of or liabilities under such laws and regulations.

Our water and wastewater operations are subject to extensive United States federal, state and local and, in the case of our Canadian operations, Canadian laws and regulations, that govern the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights, and the manner in which we collect, treat and discharge wastewater. These requirements include the United States Clean Water Act of 1972, which we refer to as the Clean Water Act, and the United States Safe Drinking Water Act of 1974, which we refer to as the Safe Drinking Water Act, and similar state and Canadian laws and regulations. We are also required to obtain various environmental permits from regulatory agencies for our operations. State PUCs also set conditions and standards for the water and wastewater services we deliver. If we deliver water or wastewater services to our customers that do not comply with regulatory standards, or otherwise violate environmental laws, regulations or permits, or other health and safety and water quality regulations, we could incur substantial fines, penalties or other sanctions or costs or damage to our reputation. In the most serious cases, regulators could force us to discontinue operations and sell our operating assets to another utility or municipality. Given the nature of our business which, in part, involves supplying water for human consumption, any potential non-compliance with, or violation of, environmental laws or regulations would likely pose a more significant risk to us than to an issuer not similarly involved in the water and wastewater industry.

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We incur substantial operating and capital costs on an ongoing basis to comply with environmental laws and regulations and other health and safety and water quality regulations. These laws and regulations, and their enforcement, have tended to become more stringent over time, and new or stricter requirements could increase our costs. Although we may seek to recover ongoing compliance costs in our rates, there can be no guarantee that the various state PUCs or similar regulatory bodies that govern our Regulated Businesses would approve rate increases to recover such costs or that such costs will not adversely and materially affect our financial condition, results of operations, cash flow and liquidity.

We may also incur liabilities under environmental laws and regulations requiring us to investigate and clean up environmental contamination at our properties or at off-site locations where we have disposed of waste or caused adverse environmental impacts. The discovery of previously unknown conditions, or the imposition of cleanup obligations in the future, could result in significant costs, and could adversely affect our financial condition, results of operations, cash flow and liquidity. Such remediation losses may not be covered by our insurance policies and may make it difficult for us to secure insurance in the future at acceptable rates.

Changes in laws and regulations over which we have no control can significantly affect our business and results of operations.

Any governmental entity that regulates our operations may enact new legislation or adopt new regulations or policies at any time, and new judicial decisions may change the interpretation of existing legislation or regulations at any time. The individuals who serve as regulators are elected or are political appointees. Therefore, elections which result in a change of political administration or new appointments may also result in changes in the individuals who serve as regulators and the policies of the regulatory agencies that they serve. New laws, or regulations, new interpretations of existing laws or regulations, or changes in agency policy, including as a response to shifts in public opinion, or conditions imposed during the regulatory hearing process may affect our business in a number of ways, including the following:

- making it more difficult for us to raise our rates and, as a consequence, to recover our costs or earn our expected rates of return;
- changing the determination of the costs, or the amount of costs, that would be considered recoverable in rate cases;
- changing water quality or delivery service standards or wastewater collection, treatment and discharge standards with which we must comply;
- restricting our ability to terminate our services to customers who owe us money for services previously provided;
- requiring us to provide water services at reduced rates to certain customers;
- restricting our ability to sell assets or issue securities;
- changing regulatory benefits that we expected to receive when we began offering services in a particular area;
- changing or placing additional limitations on change in control requirements relating to any concentration of ownership of our common stock;
- making it easier for governmental entities to convert our assets to public ownership via eminent domain;
- restricting or prohibiting our extraction of water from rivers, streams, reservoirs or aquifers; and

- revoking or altering the terms of the certificates of public convenience and necessity (or similar authorizations) issued to us by state PUCs.

Any of these changes or any other changes in laws, regulations, judicial decisions or agency policies applicable to us may have an adverse effect on our business, financial condition, results of operations, cash flow and liquidity.

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Weather conditions, natural hazards, overuse of water supplies and competing uses may interfere with our sources of water, demand for water services and our ability to supply water to customers.

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. As a general rule, sources of public water supply, including rivers, lakes, streams and groundwater aquifers are held in the public trust and are not owned by private interests. As such, we typically do not own the water that we use in our operations, and the availability of our water supply is established through allocation rights and passing-flow requirements set by governmental entities. Passing-flow requirements set minimum volumes of water that must pass through specified water sources, such as rivers and streams, in order to maintain environmental habitats and meet water allocation rights of downstream users. Allocation rights are imposed to ensure sustainability of major water sources and passing flow requirements are most often imposed on source waters from smaller rivers, lakes and streams. These requirements can change from time to time and adversely impact our water supply. Drought, overuse of sources of water, the protection of threatened species or habitats or other factors may limit the availability of ground and surface water.

Governmental restrictions on water use during drought conditions may also result in decreased use of water services, even if our water supplies are sufficient to serve our customers, which may adversely affect our financial condition and results of operations. Seasonal drought conditions that would impact our water services are possible across all of our service areas. However, these conditions are more prevalent in the Northeast and West where supply capacity is limited and per capita water demand is high. If a regional drought were to occur affecting our service areas and adjacent systems, governmental restrictions may be imposed on all systems within a region independent of the supply adequacy of any individual system. Following drought conditions, water demand may not return to pre-drought levels even after restrictions are lifted. Cool and wet weather may also reduce demand for water, thereby adversely affecting our financial condition, results of operations, cash flow and liquidity.

Service interruptions due to severe weather events are possible across all our service areas. These include winter storms and freezing conditions in our colder climate service areas, high wind conditions in our service areas known to experience tornados, earthquakes in our service areas known to experience seismic activity, high water conditions for our facilities located in or near designated flood plains, hurricane protection and response planning for our coastal service areas and severe electrical storms which are possible across all of our service areas. These weather events may affect the condition or operability of our facilities, limiting or preventing us from delivering water or wastewater services to our customers, or requiring us to make substantial capital expenditures to repair any damage. Any interruption in our ability to supply water or to collect, treat and properly dispose of wastewater, or any costs associated with restoring service, could adversely affect our financial condition and results of operations. Furthermore, losses from business interruptions or damage to our facilities might not be covered by our insurance policies and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

Declining residential per customer water usage may reduce our long-term revenues, financial condition and results of operations.

Increased water conservation, including through the use of more efficient household fixtures and appliances among residential consumers, combined with declining household sizes in the United States, has contributed to a trend of declining residential per customer water usage. Our Regulated Businesses are heavily dependent upon revenue generated from rates we charge to our residential customers for the volume of water they use. The rate we charge for our water is regulated by state PUCs and we may not unilaterally adjust our rates to reflect demand. Declining usage will have a negative impact on our long-term operating revenues if we are unable to secure rate increases or to grow our residential customer base to the extent necessary to offset the residential usage decline.

Risks associated with the collection, treatment and disposal of wastewater may impose significant costs.

The wastewater collection, treatment and disposal operations of our subsidiaries are subject to substantial regulation and involve significant environmental risks. If collection or sewage systems fail, overflow or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, which may not be recoverable in rates. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. Moreover, in the event that we are deemed liable for any damage caused by overflow, our losses might not be covered by insurance policies, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

Our Regulated Businesses require significant capital expenditures to maintain infrastructure and expand our rate base and may suffer if we fail to secure appropriate funding to make investments, or if we suffer delays in completing major capital expenditure projects.

The water and wastewater utility business is capital intensive. In addition to our acquisition strategy, we invest significant amounts of capital to add, replace and maintain property, plant and equipment. In 2006, we invested $688.8 million in capital improvements and we expect to invest approximately $740 to $780 million in capital improvements in 2007. We expect the level of capital expenditures necessary to maintain the integrity of our systems to increase in the future. We fund these projects from cash generated from operations, borrowings under our revolving credit facility and commercial paper programs and the issuance of long-term debt and equity securities. We can provide no assurances that we will be able to access the debt and equity capital markets or do so on favorable terms.

Upon the consummation of this offering RWE will have certain registration rights with respect to future issuances of our equity securities and, subject to lock-up provisions described under Shares Eligible for Future Sale Lock-Up Agreements, intends to fully divest its ownership of American Water as soon as reasonably practicable, subject to market conditions. The registration rights agreement to be entered into with RWE will impose certain restrictions on our ability to issue equity securities in amounts beyond specified thresholds without RWE s consent. Future sales of our common stock by RWE, as well as the restrictions in the registration rights agreement, may make it more difficult or costly for us to raise additional equity in the future. Furthermore, if we are unable to raise sufficient equity, we can provide no assurances that we will be able to access the debt capital markets, or do so on favorable terms.

If we are unable to obtain sufficient capital, we may fail to maintain our existing property, plant and equipment, realize our capital investment strategies, meet our growth targets and successfully expand the rate base upon which we are able to earn future returns on our investment and a return of our investment. Even if we have adequate resources to make required capital expenditures, we face the additional risk that we will not complete our major capital expenditures on time, as a result of construction delays or other obstacles. Each of these outcomes could adversely affect our financial condition and results of operations. We also face the risk that after we make substantial capital expenditures, the rate increases granted to us by state PUCs may not be sufficient to recover our prudently incurred operating expenses and to allow us the opportunity to earn an appropriate rate of return on our invested capital and a return of our invested capital.

The failure of, or the requirement to repair, upgrade or dismantle, any of our dams may adversely affect our financial condition and results of operations.

We own a total of 99 dams. A failure of any of those dams could result in injuries and property damage downstream for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition and results of operations. Any losses or liabilities incurred due to a failure of one of our dams might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

We also are required from time to time to repair or upgrade the dams that we own. The cost of such repairs can be and has been material. We might not be able to recover such costs through rates. The inability to recover these higher costs or regulatory lag in the recovery of such costs can affect our financial condition, results of operations, cash flow and liquidity.

The federal and state agencies that regulate our operations may adopt rules and regulations requiring us to dismantle our dams. Federal and state agencies are currently considering rules and regulations that could require us to strengthen or dismantle one of our dams on the Carmel River in California due to safety concerns related to seismic activity. Any requirement to strengthen or dismantle this dam could result in substantial costs that may adversely affect our financial condition and results of operations. We are currently engaged in negotiations with federal and state agencies and local stakeholders on a plan to maintain our existing Carmel River dams or to share the costs of dismantling one of them with those federal and state agencies and local stakeholders. These negotiations could be delayed or abandoned.

Any failure of our network of water and wastewater pipes and water reservoirs could result in losses and damages that may affect our financial condition and reputation.

Our operating subsidiaries distribute water and wastewater through an extensive network of pipes and store water in reservoirs located across the United States. A failure of major pipes or reservoirs could result in injuries and property damage for which we may be liable. The failure of major pipes and reservoirs may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quantities to our customers and to meet the water and wastewater delivery requirements prescribed by governmental regulators, including state PUCs with jurisdiction over our operations, and adversely affect our financial condition, results of operations, cash flow, liquidity and reputation. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

Contamination of our sources of water could result in service interruptions and human exposure to hazardous substances and subject our subsidiaries to civil or criminal enforcement actions, private litigation and clean-up obligations.

Our water supplies are subject to contamination, including contamination from naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as perchlorate and methyl tertiary butyl ether (MTBE), and possible terrorist attacks. In the event that our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute the supply of water from another water source, including, in some cases, through the purchase of water from a third-party supplier. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. If we are unable to substitute water supply in a cost-effective manner, our financial condition, results of operations, cash flow, liquidity and reputation may be adversely affected. We might not be able to recover costs associated with treating or decontaminating water supplies through rates, or such recovery may not occur in a timely manner. Moreover, we could be held liable for environmental damage as well as damages arising from toxic tort or other lawsuits or criminal enforcement actions or other consequences arising out of human exposure to hazardous substances in our drinking water supplies.

Our liquidity and earnings could be adversely affected by increases in our production costs, including the cost of chemicals, electricity, fuel or other significant materials used in the water and wastewater treatment process.

We incur significant production costs in connection with the delivery of our water and wastewater services. Our production costs are driven by inputs such as chemicals used to treat water and wastewater as well as electricity and fuel, which are used to operate pumps and other equipment used in water treatment and delivery and wastewater collection, treatment and disposal. We also incur production costs for waste disposal. For 2006, production costs accounted for 14.4% of our total operating costs. These costs can and do increase unexpectedly and in substantial amounts, as occurred in California during 2001 when the cost of electricity rose substantially.

Our Regulated Businesses might not be able to recover increases in the costs of chemicals, electricity, fuel, other significant inputs or waste disposal through rates, or such recovery may not occur in a timely manner. Our Non-Regulated Businesses may not be able to recover these costs in contract prices or other terms. The inability to recover these higher costs can affect our financial condition, results of operations, cash flow and liquidity.

Our reliance on third-party suppliers poses significant risks to our business and prospects.

We contract with third parties for goods and services that are essential to our operations, such as maintenance services, pipes, chemicals, electricity, water, gasoline, diesel and other materials. We are subject to substantial risks because of our reliance on these suppliers. For example:

- our suppliers may not provide raw materials that meet our specifications in sufficient quantities;
- our suppliers may provide us with water that does not meet applicable quality standards or is contaminated;
- our suppliers may face production delays due to natural disasters or strikes, lock-outs or other such actions;
- one or more suppliers could make strategic changes in the lines of products and services they offer; and
- some of our suppliers are small companies which are more likely to experience financial and operational difficulties than larger, well-established companies, because of their limited financial and other resources.

As a result of any of these factors, we may be required to find alternative suppliers for the raw materials and services on which we rely. Accordingly, we may experience delays in obtaining appropriate raw materials and services on a timely basis and in sufficient quantities from such alternative suppliers at a reasonable price, which could interrupt services to our customers and adversely affect our revenues, financial condition, results of operations, cash flow and liquidity.

Risks associated with potential acquisitions or investments may adversely affect us.

We will continue to seek to acquire or invest in additional regulated water or wastewater systems, including by acquiring systems in markets in the United States, where we do not currently operate our Regulated Businesses, and through tuck-ins. We will also continue to seek to enter into public/private partnerships, including O&M, military and design, build and operate, which we refer to as DBO, contracts and services that complement our businesses. These transactions may result in:

- incurrence of debt and contingent liabilities;
- failure to have or to maintain effective internal control over financial reporting;
- fluctuations in quarterly results;
- exposure to unknown risk and liabilities, such as environmental liabilities; and

other acquisition-related expenses.

We may also experience difficulty in obtaining required regulatory approvals for acquisitions, and any regulatory approvals we obtain may require us to agree to costly and restrictive conditions imposed by regulators. Future sales of our common stock by RWE, as well as the restrictions in the registration rights agreement to be entered into with RWE, may make it more difficult or costly for us to raise additional equity to fund an acquisition or to issue shares as consideration in connection with an acquisition. We may not identify all significant risks when conducting due diligence for the transaction, and we could be exposed to potential liabilities for which we will not be indemnified. There may be difficulties integrating new businesses, including bringing newly acquired businesses up to the necessary level of regulatory compliance. The demands of identifying and transitioning newly acquired businesses or pursuing investment opportunities may also divert management s attention from other business concerns and otherwise disrupt our business. Any of these risks may adversely affect our financial condition, results of operations and cash flows.

We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets causing us to record impairments that may negatively affect our results of operations.

Our total assets include substantial goodwill. At June 30, 2007, our goodwill totaled $2,962.6 million. The goodwill is associated primarily with the acquisition of American Water by an affiliate of RWE in 2003 and the acquisition of E Town Corporation in 2001, representing the excess of the purchase price the purchaser paid over the fair value of the net tangible and intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and, in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, or SFAS No. 142, is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. Annual impairment reviews are performed in the fourth quarter. We have been required to reflect, as required by SFAS No. 142 and other applicable accounting rules, a non-cash charge to operating results for goodwill impairment in the amounts of $192.9 million in 2004, $396.3 million in 2005 and $227.8 million in 2006. These amounts include impairments relating to discontinued operations.

Our annual goodwill impairment test is completed during the fourth quarter. We have processes to monitor for interim triggering events. During the third quarter of 2007, as a result of our debt being placed on review for a possible downgrade and the proposed RWE Divestiture, management determined at that time that it was appropriate to update its valuation analysis before the next scheduled annual test.

Based on this assessment, we are performing an interim impairment test and expect to record an impairment charge to goodwill to our Regulated Businesses in the amount of approximately $243.3 million in the third quarter of 2007. The decline was primarily due to a slightly lower long-term earnings forecast caused by updated customer demand and usage expectations and expectations for timing of capital expenditures and rate recovery.

We may be required to recognize additional impairments in the future, depending on, among other factors, a decline over a period of time in the valuation multiples of comparable water utilities, a decline in the market value of our common stock and its value relative to our book equity at the consummation of this offering or a decline over a period of time of our stock price following the consummation of this offering. A decline in our forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates may also result in an incremental impairment charge. Further recognition of impairments of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material and could make it more difficult for us to secure financing on attractive terms and maintain compliance with our debt covenants.

Our Regulated Businesses compete with other regulated utilities, as well as strategic and financial buyers, for acquisition opportunities, which may hinder our ability to grow our business.

We compete with other regulated utilities, as well as strategic and financial buyers, for acquisition opportunities, including tuck-ins. Our competitors may impede our growth by purchasing water utilities near our existing operations, thereby preventing us from acquiring them. Competing utilities and strategic and financial buyers have challenged, and may in the future challenge, our applications for new service territories. Our growth could be hindered if we are not able to compete effectively for new territories with other companies or strategic and financial buyers that have lower costs of operations or that can submit more attractive bids.

The assets of our Regulated Businesses are subject to condemnation through eminent domain.

Municipalities and other government subdivisions have historically been involved in the provision of water and wastewater services in the United States, and organized movements may arise from time to time in one or

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more of the service areas in which our Regulated Businesses operate to convert our assets to public ownership and operation through the governmental power of eminent domain. Should a municipality or other government subdivision seek to acquire our assets through eminent domain, we may resist the acquisition. Contesting an exercise of condemnation through eminent domain may result in costly legal proceedings and may divert the attention of the affected Regulated Business s management from the operation of its business.

The last sale of one of our water and wastewater systems under threat of condemnation occurred in 2003 in California. On March 1, 2007, our subsidiary, California American Water Company, was served by the San Lorenzo Valley Water District with court papers seeking to condemn our water and wastewater system in Felton, California, which serves approximately 1,300 customers. While we are contesting the condemnation, we might not prevail. If a municipality or other government subdivision succeeds in acquiring the assets of one or more of our Regulated Businesses through eminent domain, there is a risk that we will not receive adequate compensation for the business, that we will not be able to keep the compensation, or that we will not be able to divest the business without incurring significant one-time charges.

In order to consummate the proposed RWE Divestiture, we and RWE were required to obtain approvals from thirteen state PUCs. There can be no guarantee that some state PUC approvals already granted to us will not be appealed, withdrawn, modified or stayed.

To consummate the proposed RWE Divestiture, we and RWE obtained regulatory approvals from state PUCs in 13 states. The state PUC approval in Illinois has been appealed and the appeal period to challenge our state PUC approvals remains open in New York, New Jersey and Pennsylvania. Thus, there can be no guarantee that our state PUC approvals in those states will not be appealed. Moreover, some of our existing state PUC approvals may be withdrawn or altered in the future by the state PUCs since they retain authority to withdraw or modify their prior decisions. There also can be no guarantee that, in conjunction with an appeal or otherwise, a stay or other form of injunctive relief will not be granted by a state PUC or reviewing court.

In addition, two of the regulatory approvals that we and RWE obtained expire 24 months from the date of effectiveness of this registration statement and another approval expires 36 months from that date. If RWE does not fully divest its ownership of American Water within 24 or 36 months of the effectiveness of this registration statement, then we and RWE may be required to seek an extension of such approvals, as applicable, which process may result in delays, costs and the imposition of additional conditions on us or on RWE.

In order to obtain the state PUC approvals to consummate the proposed RWE Divestiture we were required to accept certain conditions and restrictions that could increase our costs.

Some of the regulatory approvals contain conditions and restrictions, including reporting obligations; obligations to maintain appropriate credit worthiness; restrictions on changes of control, prohibitions on the pass-through of our initial Sarbanes-Oxley Act compliance costs; prohibitions on the pass-through of costs of the Transactions; service quality and staffing level requirements; and the maintenance of specific collective bargaining agreements and retirement and certain other post employment benefit programs. These conditions and restrictions could increase our costs and adversely affect our business.

Our Non-Regulated Businesses, through American Water (excluding its regulated subsidiaries), provide performance guarantees and other forms of financial security to our public-sector clients that could be claimed by our clients or potential clients if we do not meet certain obligations.

Under the terms of some of our indebtedness and some of our agreements with the municipalities and other governmental entities, which we serve pursuant to O&M contracts, American Water (excluding its regulated subsidiaries) provides guarantees of the performance of our Non-Regulated Businesses, including financial guarantees or deposits to ensure performance of certain obligations. At June 30, 2007, we had guarantees and deposits totaling approximately $511.0 million, and this amount is likely to increase if our Non-Regulated

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Businesses grow. The presence of these contingent liabilities on our balance sheet may adversely affect our financial condition and make it more difficult for us to secure financing on attractive terms. In addition, if the obligor on the guaranteed instrument fails to perform certain obligations to the satisfaction of the party that holds the guarantee, that party may seek to enforce the guarantee against us or proceed against the deposit. In that event, our financial condition, results of operations, cash flow and liquidity could be adversely affected.

We operate a number of water and wastewater systems under O&M contracts and face the risk that the owners of those systems may fail to maintain those systems, which will negatively affect us as the operators of the systems.

We operate a number of water and wastewater systems under O&M contracts. Pursuant to these contracts, we operate the system according to the standards set forth in the applicable contract, where it is generally the responsibility of the owner to undertake capital improvements. In some cases, we may not be able to convince the owner to make needed improvements in order to maintain compliance with applicable regulations. Although violations and fines incurred by water and wastewater systems may be the responsibility of the owner of the system under these contracts, those non-compliance events may reflect poorly on us as the operator of the system and damage our reputation, and in some cases, may result in liability to the same extent as if we were the owner.

Our Non-Regulated Businesses are party to long-term contracts to operate and maintain water and wastewater systems under which we may incur costs in excess of payments received.

Some of our Non-Regulated Businesses enter into long-term contracts pursuant to which they agree to operate and maintain a municipality s or other party s water or wastewater treatment and delivery facilities in exchange for an annual fee. Our Non-Regulated Businesses are generally subject to the risk that costs associated with operating and maintaining the facilities may exceed the fees received from the municipality or other contracting party. In addition, directly or through our non-regulated subsidiaries, we often guarantee our Non-Regulated Businesses obligations under those contracts. Losses under these contracts or guarantees may adversely affect our financial condition, results of operations, cash flow and liquidity.

We rely on our IT systems to assist with the management of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our business.

Our IT systems are an integral part of our business, and a serious disruption of our IT systems could significantly limit our ability to manage and operate our business efficiently, which in turn could cause our business and competitive position to suffer and cause our results of operations to be reduced. We depend on our IT systems to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our IT systems also allow us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations and provide service to our customers. Our IT systems are vulnerable to damage or interruption from:

- power loss, computer systems failures and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data or security breaches, misappropriation and similar events;
- computer viruses;
- intentional acts of vandalism and similar events; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

Such damages or interruptions may result in physical and electronic loss of customer or financial data, security breaches, misappropriation and similar events.

In addition, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our business and we might lack sufficient resources to make the necessary investments in technology to allow us to continue to operate at our current level of efficiency.

Our indebtedness could affect our business adversely and limit our ability to plan for or respond to changes in our business, and we may be unable to generate sufficient cash flow to satisfy our liquidity needs.

As of June 30, 2007, after giving effect to the Transactions, our pro forma indebtedness was $5,391.1 million, and our working capital, defined as current assets less current liabilities, was in a deficit position. Our indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital or capital expenditures;
- exposing us to interest rate risk with respect to the portion of our indebtedness that bears interest at a variable rate;
- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations;
- likely requiring that a portion of our cash flow from operations be dedicated to the payment of the principal of and interest on our debt, thereby reducing funds available for future operations, acquisitions, dividends on our common stock or capital expenditures;
- limiting our ability to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- placing us at a competitive disadvantage compared to those of our competitors that have less debt.

In order to meet our capital expenditure needs, we may be required to make additional borrowings under our credit facilities or be required to issue new debt securities in the capital markets. We can provide no assurances that we will be able to access the debt capital markets or do so on favorable terms. If new debt is added to our current debt levels, the related risks we now face could intensify limiting our ability to refinance existing debt on favorable terms.

We will depend primarily on operations to fund our expenses and to pay the principal and interest on our outstanding debt. Our ability to meet our expenses thus depends on our future performance, which will be affected by financial, business, economic, competitive, legislative, regulatory and other factors beyond our control. If we do not have enough money to pay the principal and interest on our outstanding debt, we may be required to refinance all or part of our existing debt, sell assets, borrow additional funds or sell additional equity. If our business does not generate sufficient cash flow from operations or if we are unable to incur indebtedness sufficient to enable us to fund our liquidity needs, we may be unable to plan for or respond to changes in our business that would prevent us from maintaining or increasing our business and cause our operating results and prospects to be affected adversely.

Our failure to comply with restrictive covenants under our credit facilities could trigger prepayment obligations.

Our failure to comply with the restrictive covenants under our credit facilities could result in an event of default, which, if not cured or waived, could result in us being required to repay or refinance (on less favorable terms) these borrowings before their due date. If we are forced to repay or refinance (on less favorable terms) these borrowings, our results of operations and financial condition could be adversely affected by increased costs and rates. In 2007, we were not in compliance with reporting covenants contained in some of the debt agreements of our subsidiaries. Such defaults under the reporting covenants were caused by our delay in producing our quarterly and audited annual consolidated financial statements. We have obtained all necessary waivers under the agreements. We can provide no assurance that we will comply in the future with all our reporting covenants and will not face an event of default under our debt agreements, or that such default will be cured or waived.

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Work stoppages and other labor relations matters could adversely affect our results of operations.

Currently, approximately 3,400 employees, or approximately 50% of our total workforce, are unionized and represented by 18 different unions. Approximately one-third of our 75 union collective bargaining agreements expire annually, with 24 agreements covering 803 employees scheduled to expire before the end of 2007. We might not be able to renegotiate labor contracts on terms that are favorable to us and negotiations or dispute resolutions undertaken in connection with our labor contracts could be delayed or become subject to the risk of labor actions or work stoppages. Labor actions, work stoppages or the threat of work stoppages and our failure to obtain favorable labor contract terms during renegotiations may all adversely affect our financial condition, results of operations, cash flow and liquidity.

We currently have material weaknesses in internal control over financial reporting. If we fail to remedy our material weaknesses or otherwise maintain effective internal control over financial reporting, we may not be able to report our financial results accurately or on a timely basis. Any inability to report and file our financial results in an accurate and timely manner could harm our business and adversely impact the trading price of our common stock.

After the consummation of this offering, we will become a public company. As a public company, we will be required to comply with the Sarbanes-Oxley Act and other rules and regulations that govern public companies. In particular, we will be required to certify our compliance with Section 404 of the Sarbanes-Oxley Act for the year ended December 31, 2008, which will require us to perform system and process evaluation and testing of our internal control over financial reporting to allow management and our registered public accounting firm to report on the effectiveness of our internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. However, since 2003, we have been an indirect wholly owned subsidiary of RWE, a stock corporation incorporated in the Federal Republic of Germany, and were not required to maintain a system of internal control consistent with the requirements of the SEC and the Sarbanes-Oxley Act, nor to prepare our own financial statements. As a public reporting company, we will be required, among other things, to maintain a system of effective internal control over financial reporting suitable to prepare our publicly reported financial statements in a timely and accurate manner, and also to evaluate and report on such system of internal control.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the preparation of our consolidated financial statements as of December 31, 2006, we and our independent registered public accountants have identified the following material weaknesses in our internal control over financial reporting:

- Inadequate internal staffing and skills;
- Inadequate controls over financial reporting processes;
- Inadequate controls over month-end closing processes, including account reconciliations;
- Inadequate controls over maintenance of contracts and agreements;
- Inadequate controls over segregation of duties and restriction of access to key accounting applications; and
- Inadequate controls over tax accounting and accruals.

We will need to allocate additional resources to enhance the quality of our staff and to remediate the deficiencies in our internal controls listed above.

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Each of these weaknesses could result in a material misstatement of our annual or interim consolidated financial statements. Moreover, we cannot assure you that we have identified all, or that we will not in the future have additional, material weaknesses, any of which may subject us to additional regulatory scrutiny, and cause future delays in filing our financial statements and periodic reports with the SEC. Any such delays in the filing of our financial statements and periodic reports may result in a loss of public confidence in the reliability of our financial statements and sanctions imposed on us by the SEC. We believe that such misstatements or delays could negatively impact our liquidity, access to capital markets, financial condition and the market value of our common stock or cause a downgrade in the credit ratings of American Water or American Water Capital Corp., our finance subsidiary, which we refer to as AWCC. These material weaknesses contributed to our inability to comply with reporting covenants in our debt agreements and those of our subsidiaries, and could hinder our ability to comply with such covenants in the future if we are not successful in remediating such weaknesses.

Risks Related to this Offering

There has been no prior public trading market for shares of our common stock since our acquisition by RWE, and an active trading market may not develop following the completion of this offering.

Since our acquisition by RWE in 2003, there has been no public market for our shares. It is likely that the initial public offering price for our shares will differ from the market price for our shares after the initial public offering. We cannot assure you that an active trading market for our shares will develop. A significant portion of our shares may not trade following the offering because RWE will own approximately % of our shares after the offering (or approximately % of our shares if the underwriters option to purchase additional shares is exercised in full). If no trading market develops, securities analysts may not initiate or maintain research coverage of us, which could further depress the market for our shares. The price of our shares could decline if one or more equity analysts downgrade our shares or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. Furthermore, our operating results and prospects from time to time may be below the expectations of market analysts and investors. As a result, investors may not be able to sell their shares at or above the initial public offering price or at the time that they would like to sell.

The market price of our common stock may be volatile, which could cause the value of your investment to decline.

The initial public offering price for the shares of common stock being sold in this offering will be determined by negotiations between the representatives of the underwriters and the selling stockholder and may not be indicative of prices that will prevail in the open market following this offering. You may not be able to resell your shares at or above the initial public offering price due to fluctuations in the market price of our common stock caused by changes in our operating performance or prospects and other factors, including broad market fluctuations. Some specific factors that may have a significant effect on the market price of our common stock include:

- actual or anticipated fluctuations in our operating results or future prospects;
- the public s reaction to our press releases, our other public announcements and our filings with the SEC;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- adverse conditions in the financial markets or general economic conditions, including those resulting from war, incidents of terrorism and responses to such events;

sales of common stock by us, the selling stockholder or members of our management team; and

changes in stock market analyst recommendations or earnings estimates regarding our common stock, other comparable companies or the water services industry generally.

There has not been a public market for our common stock since our acquisition by RWE in 2003. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the New York Stock Exchange or otherwise or how liquid that market might become. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy. Consequently, you may not be able to sell our common stock at prices equal to or greater than the price you paid in this offering.

Future sales of our shares, or the perception by the market that future sales of our shares may occur, could depress the market price of our common stock.

Future sales, or the perception of the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities at a time and price that we deem appropriate. Following the Transactions, there will be shares of our common stock outstanding.

The shares of common stock sold by RWE in this offering will be freely transferable without restriction or further registration under the Securities Act. The remaining shares of common stock owned by RWE will be restricted securities within the meaning of Rule 144 under the Securities Act but will be eligible for resale subject to applicable volume, manner of sale, holding period and other limitations of Rule 144 and the lock-up provisions described below. RWE has registration rights with respect to the common stock that they will retain following this offering and, subject to the lock-up provisions described in this prospectus, intends to fully divest its ownership of American Water as soon as reasonably practicable, subject to market conditions.

In addition, the equity units to be issued pursuant to a separate prospectus concurrently with this offering are effectively exchangeable into up to freely tradable shares of our common stock on the third anniversary of that offering. Following the consummation of this offering, we intend to grant restricted stock units and stock options under our 2007 Omnibus Equity Compensation Plan, and are considering establishing an employee stock purchase plan, for which we would reserve shares of our common stock to be issued and sold thereunder.

We, our executive officers and directors and the selling stockholder have agreed to a lock-up, meaning that, subject to specified exceptions, neither we nor they will sell any shares or engage in any hedging transactions without the prior consent of the representatives of the underwriters for 180 days after the date of this prospectus. Following the expiration of this 180-day lock-up period, all of the shares of our common stock held by our executive officers and directors and by the selling stockholder will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144.

We expect to pursue issuances of our common stock in order to meet our capital expenditure needs. We may also issue shares of our common stock, or other securities, from time to time as consideration for future acquisitions and investments. The number of shares of our common stock or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be significant. To the extent such shares or other securities are issued in private transactions, we may also grant registration rights covering those shares or other securities. Any additional capital raised through the sale of our equity securities may dilute your percentage ownership in us. See Shares Eligible for Future Sale for a discussion of the shares of common stock that may be sold into the public market in the future.

You may never receive dividends on your investment in our common stock, which may limit your returns.

We currently intend to declare and pay regular quarterly cash dividends on our common stock. See Dividend Policy. However, we are not legally or contractually required to pay dividends, and our board of directors may revise or discontinue our dividend policy at any time. In particular, our dividend policy may change upon a change in control.

Our ability to pay dividends will depend on our ability to generate cash flow from operations in the future. This ability, to an extent, is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control. In addition, we are a holding company with no substantial assets. Because substantially all of our operations are conducted through our subsidiaries, we will not be able to pay dividends unless we receive sufficient cash distributions from our operating subsidiaries. We cannot assure you, however, that our subsidiaries will generate sufficient cash flow from operations, or have sufficient surplus or net profits, as the case may be, to make cash contributions to us in an amount sufficient to enable us to pay our indebtedness, pay dividends or to fund our other liquidity needs. Our operating subsidiaries are subject to regulation by applicable state PUCs which may limit the ability of these subsidiaries to make distributions to us. Some of our debt agreements restrict our ability, subject to specified exceptions, to pay dividends. We cannot assure you that the agreements governing our future indebtedness will permit us to pay dividends on our common stock. See Description of Certain Indebtedness. If we do not have sufficient cash to fund dividend payments, we would either reduce or eliminate dividends or rely on cash provided by financing activities to fund dividend payments, and such financing may or may not be available.

Our principal stockholder is in a position to affect our ongoing operations, corporate transactions and other matters, and its interests may conflict with or differ from your interests as a stockholder.

Upon the consummation of this offering, RWE will own approximately % of our common stock (or approximately % if the underwriters option to purchase additional shares is exercised in full). As a result, RWE effectively will be able to significantly influence the outcome on virtually all matters submitted to a vote of our stockholders, including the election of directors. So long as RWE continues to own a significant portion of the outstanding shares of our common stock, it will continue to be able to significantly influence the election of our directors, subject to compliance with applicable NYSE requirements, our decisions, policies, management and affairs and corporate actions requiring stockholder approval, including the approval of transactions involving a change in control. The interests of RWE and its affiliates may not coincide with the interests of our other stockholders.

Provisions in our amended and restated certificate of incorporation, our bylaws, Delaware law and the laws of the states in which we operate may inhibit or discourage a takeover attempt and negatively affect the value of your shares.

Provisions of our charter documents, the General Corporation Law of the State of Delaware, the state in which we are organized, and the laws of the states in which we operate, could discourage potential acquisition proposals or make it more difficult for a third party to acquire control of our company, even if doing so might be beneficial to our stockholders. See Description of Capital Stock. Upon the consummation of the offering, our amended and restated certificate of incorporation and bylaws will provide for various procedural and other requirements that could make it more difficult for stockholders to effect some corporate actions, or may deter, delay or prevent a third party from acquiring us. These provisions will include:

- limitations on who may call special meetings of stockholders;
- the inability of stockholders to act by written consent;
- advance notice requirements for nominations for election to the board of directors and for stockholder proposals; and
- the authority of our board of directors to issue, without stockholder approval, shares of preferred stock with such terms as our board of directors may determine and to issue additional shares of our common stock.

In addition, some of the states in which we operate have enacted laws that require regulatory approval for the acquisition of control of regulated utilities. The threshold for a change in control is a fact specific inquiry that varies by state. For instance, in some states, any person acquiring more than 9.9% of our common stock

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would need the prior approval of the applicable state PUC or a determination from such state PUC that control has not been acquired. In addition to ownership, other states may analyze the degree of influence or control an acquiror may exert over the company. Any person acquiring our common stock in this offering, through the concurrent offering of our equity units or in any other purchase of our common stock in a quantity sufficient to trigger a change in control under state law would need the prior approval of the applicable state PUC. For example, in Kentucky, KY. Rev. Stat. Ann. §278.020 requires that no person may acquire control of American Water without obtaining necessary regulatory approvals.

These provisions may discourage acquisition proposals and may make it more difficult or expensive for a third party to acquire a majority of our outstanding voting stock or may delay, prevent or deter a merger, acquisition, tender offer or proxy contest, which may negatively affect our stock price.

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FORWARD-LOOKING STATEMENTS

We have made statements under the captions Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and in other sections of this prospectus that are forward-looking statements. In some cases, these forward-looking statements can be identified by words with prospective meanings such as intend, plan, estimate, believe, anticipate, expect, predict, p forecast, outlook, future, potential, continue, may, can, should and could and similar expressions. Forward-looking statements m among other things, our future financial performance, our growth strategies, our ability to repay debt, our ability to finance current operations and growth initiatives, trends in our industry, regulatory or legal developments or rate adjustments.

Forward-looking statements are predictions based on our current expectations and assumptions regarding future events. They are not guarantees of any outcomes, financial results or levels of performance, and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of risks and uncertainties, and new risks and uncertainties of which we are not currently aware or which we do not currently perceive may arise in the future from time to time. Should any of these risks or uncertainties materialize, or should any of our expectations or assumptions prove incorrect, then our results may vary materially from those discussed in the forward-looking statements herein. Factors that could cause actual results to differ from those discussed in forward-looking statements include, but are not limited to, the factors discussed under the caption Risk Factors and the following factors:

- weather conditions, patterns or events, including drought or abnormally high rainfall;
- changes in general economic, business and financial market conditions;
- changes in laws, governmental regulations and policies, including environmental, health and water quality and public utility regulations and policies;
- the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the timeliness of regulatory commissions actions concerning rates;
- migration into or out of our service territories;
- our ability to obtain permits for expansion projects;
- changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts;
- the availability of adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our operations;
- our ability to successfully acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business;
- our ability to manage the expansion of our business;

our ability to control operating expenses and to achieve efficiencies in our operations;

access to sufficient capital on satisfactory terms;

fluctuations in interest rates;

restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends;

changes in our credit rating;

changes in capital requirements;

the incurrence of impairment charges;

- difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions;
- ability to retain and attract qualified employees;
- cost overruns relating to improvements or the expansion of our operations; and
- civil disturbance or terrorist threats or acts or public apprehension about future disturbances or terrorist threats or acts.

Any forward-looking statements we make speak only as of the date of this prospectus. Except as required by law, we do not have any obligation, and we specifically disclaim any undertaking or intention, to update any forward-looking statements, whether as a result of new information, future events or otherwise.

INDUSTRY AND MARKET DATA

Unless otherwise indicated, information contained in this prospectus concerning the water and wastewater industry, its segments and related markets and our general expectations concerning such industry and its segments and related markets are based on management estimates. Such estimates are derived from publicly available information released by third-party sources, as well as data from our internal research and on assumptions made by us based on such data and our knowledge of such industry and markets, which we believe to be reasonable. We have estimated the number of people served by our water and wastewater systems (i) by multiplying the number of residential water and wastewater connections by average people per household based on 2000 United States Census data by state (average people per household varies by state but is generally between 2.4 to 3.0 individuals per household); (ii) by adjusting for some other customer classes, including commercial customers, and for bulk water sales and (iii) by reconciling drinking water and wastewater connections to avoid double counting population served where the same user has both drinking water and wastewater service. In some instances, population estimates for our Non-Regulated Businesses are based on either (i) specific population estimates from the client or (ii) population estimates based on the average volume of water processed by the applicable facilities. While we are not aware of any misstatements regarding the industry or similar data presented herein, such data involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading Risk Factors in this prospectus.

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USE OF PROCEEDS

All of the shares of common stock offered by this prospectus are being sold by the selling stockholder. For information about the selling stockholder, see Principal and Selling Stockholder. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholder.

EQUITY UNITS OFFERING

Concurrently with this offering of common stock, we are offering, by means of a separate prospectus, $ million of our equity units. Each equity unit will have a stated amount of $50 and will consist of a contract obligating the purchaser to purchase shares of common stock and a fixed-rate senior note initially due . Pursuant to the purchase contracts, we will have an obligation to deliver, on or prior to , shares of common stock, subject to anti-dilution adjustments as provided in the purchase contracts.

We estimate that we will receive net proceeds from our sale of equity units of $ million, after deducting estimated expenses and underwriting discounts and commissions.

DIVIDEND POLICY

We intend to pay quarterly cash dividends on our common stock at an initial rate of $ per share per annum. The first such dividend will be declared and paid in the first quarter following the completion of this offering. The declaration, payment and amount of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend on many factors, including our financial condition and results of operations, liquidity requirements, capital requirements of our subsidiaries, legal requirements, regulatory constraints and other factors deemed relevant by our board of directors.

We are a holding company with no significant business operations of our own. All of our business operations are conducted through our subsidiaries. Dividends and loans from, and cash generated by, our subsidiaries will be our principal sources of cash to repay indebtedness, fund operations and pay dividends. Accordingly, our ability to pay dividends to our stockholders will depend on the earnings and distributions of funds from our subsidiaries. See Risk Factors Risks Related to this Offering To pay dividends at intended levels, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control, including the ability to receive cash distributions from our subsidiaries. We may not receive sufficient distributions from our subsidiaries to pay dividends with respect to shares of our common stock.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2007 on an actual basis and on a pro forma basis to give effect to the Transactions as if they had occurred on June 30, 2007.

You should read this table in conjunction with, and this table is qualified in its entirety by reference to, the sections in this prospectus entitled Summary Historical Consolidated and Unaudited Pro Forma Financial Data, Use of Proceeds, Unaudited Pro Forma Condensed Consolidated Financial Information, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	As of June 30, 2007 (dollars in thousands)	
	Historical	**Pro forma**
Cash and cash equivalents	$ 51,445	$ 55,719
Short-term debt		
RWE notes(1)	141,000	
Short-term debt	167	167
Total short-term debt	141,167	167
Long-term debt of American Water		
Redeemable preferred stock(2)	1,750,000	
Long-term debt of AWCC		
Private activity bonds and government funded debt	86,860	86,860
Senior notes	1,212,000	1,212,000
New senior notes(3)		1,500,000
RWE notes(4)	81,000	
Equity units (5)		500,000
Long-term debt of other subsidiaries		
Private activity bonds and government funded debt	1,126,493	1,126,493
Mortgage bonds	802,840	802,840
Senior notes	53,500	53,500
Redeemable preferred stock at redemption value (6)	24,856	24,856
Notes payable and other	3,859	3,859
Unamortized debt discount, net	80,545	80,545
Total long-term debt	5,221,953	5,390,953
Total debt	5,363,120	5,391,120
Equity		
Common stockholders equity(7)(8)	4,520,149	4,484,793
Preferred stock without mandatory redemption requirements	4,568	4,568
Total equity	4,524,717	4,489,361
Total capitalization including short-term debt and current portion of long-term debt	$ 9,887,837	$ 9,880,481

(1) In connection with the Refinancing, we will repay $141.0 million of short-term indebtedness owed to RWE.

(2) In connection with the Refinancing, on September 20, 2007 we redeemed $1,750.0 million of our preferred stock.

(3) In connection with the Refinancing, AWCC will issue $1,500.0 million of new senior notes.

(4) In connection with the Refinancing, we will repay $81.0 million of long-term indebtedness owed to RWE.

(5) In connection with the Refinancing, AWCC will issue approximately $500.0 million of equity units by a separate prospectus concurrently with this offering.

(6) Includes current portion of redeemable preferred stock.

(7) Does not include the common stock issuable upon settlement of the purchase contract included in the equity units being offered by a separate prospectus concurrently with this offering.

(8) Does not include the approximately $243.3 million goodwill impairment we expect to record in the third quarter of 2007 or the $150.0 million equity contribution from RWE on September 27, 2007.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information have been developed by applying pro forma adjustments to the historical audited and unaudited consolidated financial statements of American Water appearing elsewhere in this prospectus. See the explanatory note to the unaudited pro forma condensed consolidated financial statements. The unaudited pro forma condensed consolidated statements of operations give effect to the Transactions as if they had occurred on January 1, 2006. The unaudited pro forma condensed consolidated balance sheet gives effect to the Transactions (other than the non-cash equity contributions to the Company by RWE, which are each reflected in the historical balance sheet) as if they had occurred on June 30, 2007. The Transactions consist of the following:

- The Merger, comprising:
  - The merger of Thames US Holdings into American Water with American Water being the surviving entity.
- The Refinancing, comprising:
  - The non-cash equity contribution to the Company by RWE of $1,194.5 million of debt of our subsidiaries held by RWE on December 15, 2006, the non-cash equity contribution to the Company by RWE of $100.0 million of debt of our subsidiaries held by RWE on March 29, 2007 and the $550.0 million cash equity contribution to the Company by RWE on March 29, 2007, which was used to pay down $232.5 million of short-term debt and the remainder used for general working capital purposes;
  - The $1,750.0 million issuance of RWE redemption notes on September 20, 2007, which was used to fund the early redemption of $1,750.0 million of preferred stock held by RWE;
  - The issuance of approximately $1,500.0 million aggregate principal amount of new senior notes, less issuance costs, which will fund the repayment of $1,270.1 million aggregate principal amount of RWE redemption notes and $222.0 million (including after tax gains of $1.3 million) aggregate principal amount of RWE notes; and
  - The issuance of approximately $500.0 million of equity units, less issuance costs, to fund the repayment of approximately $479.9 million of RWE redemption notes with the balance of the net cash proceeds of approximately $4.3 million to be used for general corporate purposes.
- The -for- split of common stock effected prior to this offering.

Upon completion of this offering the Company expects to pay approximately $2.8 million in completion bonuses to various key members of management. As of June 30, 2007, approximately $2.1 million has been accrued as a portion of the completion bonuses are not contingent on the successful completion of the offering and may be paid as cash bonuses. The unaccrued portion of the completion bonuses has not been reflected in the unaudited pro forma condensed consolidated financial information.

The unaudited pro forma adjustments and financial information do not include the approximately $243.3 million goodwill impairment we expect to record in the third quarter of 2007 or the $150.0 million equity contribution from RWE on September 27, 2007.

Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with these unaudited pro forma condensed consolidated financial statements.

The unaudited pro forma adjustments and financial information:

are based upon available information and certain assumptions that we believe are reasonable under the circumstances;

are presented for informational purposes only;

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do not purport to represent what our results of operations or financial condition would have been had the Transactions actually occurred on the dates indicated; and

do not purport to project our results of operations or financial condition for any future period or as of any future date.

The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the information contained in Use of Proceeds, Capitalization, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto appearing elsewhere in this prospectus. All pro forma adjustments and their underlying assumptions are described more fully in the notes to our unaudited pro forma condensed consolidated financial statements.

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American Water Works Company, Inc. and Subsidiary Companies

Unaudited Pro Forma Condensed Consolidated Statement of Operations

For the Year Ended December 31, 2006

	Historical	Pro forma adjustments	Pro forma
	(dollars in thousands, except for share and per share amounts)		
Operating revenues	$ 2,093,067	$	$ 2,093,067
Operating expenses			
Operation and maintenance	1,174,544	1,700 (A)	1,176,244
Depreciation and amortization	259,181		259,181
General taxes	185,065		185,065
Loss (gain) on sale of assets	79		79
Impairment charges	221,685		221,685
Total operating expenses, net	1,840,554	1,700	1,842,254
Operating income (loss)	252,513	(1,700)	250,813
Other income (deductions)			
Interest	(365,970)	(4,370)(B)	(297,067)
		74,676 (C)	
		(1,403)(H)	
Amortization of debt expense	(5,062)	(968)(B)	(6,030)
Other, net	9,581		9,581
Total other income (deductions)	(361,451)	67,935	(293,516)
Income (loss) from continuing operations before income taxes	(108,938)	66,235	(42,703)
Provision for income taxes	46,912	26,194 (E)	73,106
Income (loss) from continuing operations	$ (155,850)	$ 40,041	$ (115,809)
Unaudited pro forma earnings per share:			
Basic	$ (155,850)		
Diluted	$ (155,850)		
Weighted average shares used in calculating earnings per share:			
Basic	1,000	(F)	
Diluted	1,000	(G)	

See accompanying notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies

Unaudited Pro Forma Condensed Consolidated Statement of Operations

For the Six Months Ended June 30, 2007

	Historical	Pro forma adjustments	Pro forma
	(dollars in thousands, except for share and per share amounts)		
Operating revenues	$ 1,027,277	$	$ 1,027,277
Operating expenses			
Operation and maintenance	581,999	510 (A)	582,509
Depreciation and amortization	132,764		132,764
General taxes	93,819		93,819
Loss (gain) on sale of assets	(6,113)		(6,113)
Impairment charges			
Total operating expenses, net	802,469	510	802,979
Operating income (loss)	224,808	(510)	224,298
Other income (deductions)			
Interest	(142,970)	(2,203)(B)	(141,759)
		4,116 (C)	
		(702)(H)	
Amortization of debt expense	(2,397)	(484)(B)	(2,881)
Other, net	7,351		7,351
Total other income (deductions)	(138,016)	727	(137,289)
Income (loss) from continuing operations before income taxes	86,792	217	87,009
Provision for income taxes	34,378	85 (E)	34,463
Income (loss) from continuing operations	$ 52,414	$ 132	$ 52,546
Unaudited pro forma earnings per share:			
Basic	$ 52,414		
Diluted	$ 52,414		
Weighted average shares used in calculating earnings per share:			
Basic	1,000	(F)	
Diluted	1,000	(G)	

See accompanying notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements.

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American Water Works Company, Inc. and Subsidiary Companies

Unaudited Pro Forma Condensed Consolidated Balance Sheet

June 30, 2007

	Historical	Pro forma adjustments	Pro forma
		(dollars in thousands)	
ASSETS			
Property, plant and equipment			
Utility plant at original cost, net of accumulated depreciation	$ 8,806,066	$	$ 8,806,066
Nonutility property, net of accumulated depreciation	109,525		109,525
Total property, plant and equipment	8,915,591		8,915,591
Current assets			
Cash and cash equivalents	51,445	4,274 (B)(I)	55,719
Other current assets	440,550		440,550
Total current assets	491,995	4,274	496,269
Regulatory and other long-term assets			
Goodwill	2,962,564		2,962,564
Other regulatory and other long-term assets	701,435	12,300 (D)	713,735
Total regulatory and other long-term assets	3,663,999	12,300	3,676,299
TOTAL ASSETS	$ 13,071,585	$ 16,574	$ 13,088,159
CAPITALIZATION & LIABILITIES			
Capitalization			
Common stockholders equity	$ 4,520,149	$ 1,346 (I) (23,389)(H) (13,653)(D) 340 (J)	$ 4,484,793
Preferred stock without mandatory redemption requirements	4,568		4,568
Long-term debt			
Long-term debt	3,335,579	(81,000)(I)	3,254,579
Redeemable preferred stock at redemption value	1,774,299	(1,750,000)(I)	24,299
New senior notes		1,500,000 (B)	1,500,000
Equity units		500,000 (B)	500,000
Total capitalization	9,634,595	133,644	9,768,239

Current liabilities			
Short-term debt and current portion of long-term debt	253,242	(141,000)(I)	112,242
Other current liabilities	373,216	881 (E) 4,425 (E)	378,522
Total current liabilities	626,458	(135,694)(I)	490,764
Total regulatory and other long-term liabilities	2,031,085	(4,425)(E) 23,389 (H) (340)(J)	2,049,709
Contributions in aid of construction	779,447		779,447
TOTAL CAPITALIZATION AND LIABILITIES	$ 13,071,585	$ 16,574	$ 13,088,159

See accompanying notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies

Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements

Explanatory Note: On September 28, 2007, Thames US Holdings was merged with and into American Water, with American Water as the surviving entity. American Water is an indirect wholly owned subsidiary of RWE. The historical consolidated financial statements of American Water represent the consolidated results of the Company, formerly issued under the name Thames Water Aqua US Holdings, Inc. and Subsidiary Companies.

(A) Reflects the granting of of unvested stock options and restricted stock units to our employees in conjunction with this offering. The awards will be issued under the American Water 2007 Omnibus Equity Compensation Plan and will be recorded as equity awards. The awards vest over a 3-year period commencing January 1, 2007 and unvested stock options and restricted stock units are expected to vest over the three-year period based on our assessment of the probability of achieving performance conditions. The grant date value of the stock options at issuance was using the following assumptions in a Black-Scholes model: Exercise Price, Expected Term, Discount Rate, Volatility, Dividend Yield.

(B) The sources and uses of funds in connection with the Refinancing and the related impact on interest expense related to the Transactions are summarized below, which are defined and further discussed elsewhere in this prospectus.

	Principal	Rate	Interest expense 12 months	Interest expense 6 months	Debt expense amortization 12 months	Debt expense amortization 6 months
			(dollars in thousands)			
SOURCES:						
RWE redemption notes(1)	$ 1,750,000	5.72%				
New senior notes(1)	1,500,000	6.00%(2)				
Equity units(1)	500,000	6.00%(2)				
Total sources	$ 3,750,000		$ 120,000	$ 60,000		
USES:						
Redeemable preferred stock(1)	$ 1,750,000		$ (103,250)	$ (51,625)		
RWE redemption notes(1)	1,750,000					
RWE notes(1)	219,773		(12,380)	(6,172)		
Financing costs	25,953				($ 968)	($ 484)
Total	3,745,726		(115,630)	(57,797)	(968)	(484)
Net source (use)	$ 4,274		$ 4,370	$ 2,203	($ 968)	($ 484)

(1) The issuance of $1,750.0 million of RWE redemption notes on September 20, 2007 was used to fund the early redemption of $1,750.0 million of preferred stock held by RWE. $1,270.1 million of the proceeds of the new senior notes and $479.9 million of the proceeds of the equity units will be used to fund the early repayment of the RWE redemption notes. $219.8 million of the proceeds of the new senior notes will be used to fund the repayment of $222.0 million (including after tax gains of $1.3 million, net of $0.9 million of tax) of RWE notes.

(2) Reflects the assumed blended interest rates in the case of the new senior notes and the notes associated with the equity units. A $^{1}/_{8}$% change to the assumed interest rates would impact earnings before tax by approximately $2.5 million for the year ended December 31, 2006 and $1.3 million for the six months ended June 30, 2007.

(C) Reflects the non-cash equity contribution to the Company by RWE of $1,194.5 million of debt of our subsidiaries held by RWE on December 15, 2006, the non-cash equity contribution to the Company by RWE of $100.0 million of debt of our subsidiaries held by RWE and the $550.0 million of cash equity contribution to the Company by RWE on March 29, 2007. The cash was used to pay down $232.5 million of short-term debt with the remainder used for general working capital purposes.

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The resulting reduction in interest expense is computed as follows:

	RWE Notes	RWE Notes	Revolver	Commercial Paper	Total
			(dollars in thousands)		
Principal redemption	$ 1,194,454	$ 100,000	$ 232,500	$ 232,500	
Calculated effective rate	4.89%	4.00%	5.30%	5.44%	
Reduction in interest expense for the year ended December 31, 2006	$ 58,353	$ 4,000	$ 12,323		$ 74,676
Reduction in interest expense for the six months ended June 30, 2007		$ 989	(2)	$ 3,127(1)	$ 4,116

(1) Reflects actual interest accrued from January 1, 2007 to March 27, 2007.

(2) The revolving credit facility was fully repaid as of December 31, 2006.

(D) Reflects issuance costs that are expected to total $26.0 million, of which $13.7 million relating to the equity units has been reflected as a reduction to additional paid in capital, and $12.3 million associated with new senior notes (including $10.1 million with respect to the new senior notes and $2.2 million related to the notes associated with the equity units) has been reflected as other assets and will be amortized over the respective terms of each of the new notes.

(E) Represents the reduction in income tax expense resulting from the Transactions at the estimated blended tax rate of 39.6%. The deferred tax liability of $4.4 million associated with the preferred stock dividend was reclassified from long-term to short-term liabilities, and the $0.9 million estimated tax expense on the gains from early extinguishment of debt is reflected as a current liability.

(F) The number of common shares used to compute pro forma basic earnings per common share is , which is the number of shares of our common stock assumed to be outstanding on the issuance date.

(G) The number of shares used to compute pro forma diluted earnings per share will be based on the number of shares of our common stock described in (F) above, plus the potential dilution that could occur if restricted stock units granted under the American Water 2007 Omnibus Equity Compensation Plan were exercised or converted into common stock. The number of shares used in computing pro forma diluted earnings per share have been adjusted to reflect number of restricted units assumed to have been issued.

(H) The equity units have an assumed overall annual payment rate of %. The assumed interest rate on the underlying notes is % and the remainder is attributable to the contract adjustment payments, which includes imputed interest of $1.4 million (which is not disclosed in footnote (B) above calculated on the basis of the $23.4 million present value of the obligation to make contract adjustment payments at the estimated interest rate of 6%). The estimated present value of the obligation to make contract adjustment payments of $23.4 million is recorded as a long-term liability with a corresponding reduction of additional paid-in capital.

(I) Reflects the repurchase of RWE notes, the issuance and repayment of the RWE redemption notes, the issuance of equity units, the issuance of senior notes and the early redemption of preferred stock. The proceeds from the new senior notes will be used to fund the repayment of $222.0 million (including after tax gains of $1.3 million) aggregate principal amount of RWE notes and to fund the repayment of $1,270.1

million of RWE redemption notes with the remaining net proceeds to be used for general corporate purposes. The gain of $1.3 million, after income taxes, on the early extinguishment of the RWE notes is calculated as the difference between the assumed interest rate of the 10-year tranche of the new senior notes and the weighted-average interest rate on the RWE notes. The gain has been recorded as a capital contribution from RWE.

(J) Reflects the adjustment of the restricted stock units from liability-classified awards to equity-classified awards as of the completion of this offering resulting in a reclassification of $0.3 million of current liabilities to additional paid-in capital.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table presents our selected historical consolidated financial data at the dates and for the periods indicated. The statements of operations data for the years ended December 31, 2004, 2005, and 2006 and the balance sheet data as of December 31, 2005 and 2006 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The historical financial data as of December 31, 2004 have been derived from our audited consolidated financial statements not included in this prospectus. The financial data as of June 30, 2006 and 2007 and for the six months ended June 30, 2006 and 2007 have been derived from our unaudited interim consolidated financial statements included elsewhere in this prospectus. See footnote 1 to the table below. Operating results for the six months ended June 30, 2006 and 2007 have been prepared on a basis consistent with our audited consolidated financial statements and reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position and results for the periods presented. The results of any interim period are not necessarily indicative of the results that may be expected for any other interim period or for the entire fiscal year. The financial data as of and for the year ended December 31, 2002 have been derived from the consolidated financial statements of Thames Water Holdings, Incorporated, which we refer to as Predecessor, the statement of operation for the year ended December 31, 2003, and the financial data as of December 31, 2003 and 2004 have been derived from our historical financial statements, in each case, which are not included in this prospectus.

Our historical consolidated financial data are not necessarily indicative of our future performance or what our financial position and results of operations would have been if we had operated as a separate, stand-alone entity during the periods shown. This financial data should be read in conjunction with, and is qualified in its entirety by reference to, the information in the section in this prospectus entitled Summary Historical Consolidated and Unaudited Pro Forma Financial Data , Use of Proceeds , Capitalization , Unaudited Pro Forma Condensed Consolidated Financial Information , Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	For the years ended December 31,					For the six months ended June 30,	
	2002(1) (Predecessor) (unaudited)	2003 (unaudited)	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
	(dollars in thousands, except for share and per share data)						
Statement of operations data(2):							
Operating revenues	$ 198,835	$ 1,890,291	$ 2,017,871	$ 2,136,746	$ 2,093,067	$ 1,007,691	$ 1,027,277
Operating expenses							
Operation and maintenance	99,571	1,089,071	1,121,970	1,201,566	1,174,544	562,072	581,999
Depreciation and amortization	20,659	210,588	225,260	261,364	259,181	128,728	132,764
General taxes	24,480	164,677	170,165	183,324	185,065	94,756	93,819
Loss (gain) on sale of assets(3)		(16,771)	(8,611)	(6,517)	79	(1,795)	(6,113)
Impairment charges	182,256	3,555	78,688	385,434	221,685		
Total operating expenses, net	326,966	1,451,120	1,587,472	2,025,171	1,840,554	783,761	802,469
Operating income (loss)	(128,131)	439,171	430,399	111,575	252,513	223,930	224,808
Other income (deductions)							
Interest	(26,734)	(280,501)	(315,944)	(345,257)	(365,970)	(178,968)	(142,970)
Amortization of debt expense		(3,872)	(3,377)	(4,367)	(5,062)	(1,678)	(2,397)
Other, net(4)	5,343	(52,387)	14,350	13,898	9,581	4,927	7,351
Total other income (deductions)	(21,391)	(336,760)	(304,971)	(335,726)	(361,451)	(175,719)	(138,016)
Income (loss) from continuing operations before income taxes	(149,522)	102,411	125,428	(224,151)	(108,938)	48,211	86,792

Provision for income taxes	8,895	60,271	66,328	50,979	46,912	20,056	34,378
Income (loss) from continuing operations	$ (158,417)	$ 42,140	$ 59,100	$ (275,130)	$ (155,850)	$ 28,155	$ 52,414
Income (loss) from continuing operations per basic common share(5)	$ (158,417)	$ 42,140	$ 59,100	$ (275,130)	$ (155,850)	$ 28,155	$ 52,414
Income (loss) from continuing operations per common diluted share(5)	$ (158,417)	$ 42,140	$ 59,100	$ (275,130)	$ (155,850)	$ 28,155	$ 52,414
Basic weighted average common shares(5)	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Diluted weighted average common shares(5)	1,000	1,000	1,000	1,000	1,000	1,000	1,000

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	For the years ended December 31, 2004	2005	2006	For the six months ended June 30, 2006 (unaudited)	2007 (unaudited)
	(dollars in thousands, except for share and per share data)				
Other data:					
Cash flows provided by (used in):					
Operating activities	$ 458,408	$ 525,435	$ 323,748	$ 66,723	$ 136,181
Investing activities	(545,903)	(530,165)	(691,438)	(241,724)	(279,441)
Financing activities	95,254	(9,049)	332,367	133,391	164,951
Construction expenditures	(546,241)	(558,446)	(688,843)	(235,818)	(307,726)

	2002(1) (Predecessor) (unaudited)	2003 (unaudited)	As of December 31, 2004	2005	2006	As of June 30, 2007 (unaudited)
Balance sheet data:						
Cash and cash equivalents	$ 24,232	$ 71,097	$ 78,856	$ 65,077	$ 29,754	$ 51,445
Utility plant and property, net of depreciation	772,052	7,377,195	7,754,434	8,101,769	8,605,341	8,806,066
Total assets	1,297,587	12,629,354	12,728,410	12,542,029	12,783,059	13,071,585
Other short term and long term debt	806,770	5,063,344	5,101,891	5,030,078	4,103,532	3,588,821
Redeemable preferred stock	12,000	1,787,777	1,775,224	1,774,691	1,774,475	1,774,299
Total debt	818,770	6,851,121	6,877,115	6,804,769	5,878,007	5,363,120
Common stockholder equity	106,229	3,198,144	3,129,555	2,804,716	3,817,397	4,520,149
Preferred stock without mandatory redemption requirements		5,687	4,651	4,571	4,568	4,568

(1) Principally reflects the historical financial data of Elizabethtown Water Company.

(2) On September 28, 2007, Thames US Holdings was merged with and into American Water, with American Water as the surviving entity. American Water is an indirect wholly owned subsidiary of RWE. The historical consolidated financial statements of American Water represent the consolidated results of the Company, formerly issued under the name Thames Water Aqua US Holdings, Inc. and Subsidiary Companies.

(3) Represents primarily losses (gains) on sales of publicly traded securities and dispositions of assets not needed in utility operations.

(4) Includes allowance for other funds used during construction, allowance for borrowed funds used during construction and preferred dividends of subsidiaries.

(5) The number of shares used to compute income (loss) from continuing operations per basic share and income (loss) from continuing operations per diluted common share for the fiscal years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2006 and 2007 is 1,000 (the number of common shares outstanding during such period) as no dilutive options or instruments were outstanding during these periods.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations covers periods prior to the consummation of the Transactions. Accordingly, the discussion and analysis of historical periods does not reflect the significant impact that the Transactions will have on us. You should read the following discussion together with the financial statements and the notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements that are based on management s current expectations, estimates and projections about our business and operations. The cautionary statements made in this prospectus should be read as applying to all related forward-looking statements whenever they appear in this prospectus. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under Risk Factors and elsewhere in this prospectus. You should read Risk Factors and Forward-Looking Statements.

Overview

Founded in 1886, American Water is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our nearly 6,900 employees provide approximately 16.2 million people with drinking water, wastewater and other water-related services in 32 states and Ontario, Canada. In 2006, we generated $2,093.1 million in total operating revenue, representing approximately four times the operating revenue of the next largest investor-owned company in the United States water and wastewater business, and $252.5 million in operating income, which includes $221.7 million of impairment charges relating to continuing operations, and a net loss of $162.2 million.

Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state PUCs in the states in which they operate. The federal government and the states also regulate environmental, health and safety and water quality matters. Our Regulated Businesses currently provide services in 20 states and in 2006 served approximately 3.3 million customers, or connections to our water and wastewater networks. We report the results of this business in our Regulated Businesses segment. In 2006, our Regulated Businesses generated $1,854.6 million in operating revenue, prior to inter-segment eliminations, representing 88.6% of our consolidated operating revenue.

We also provide services that are not subject to economic regulation by state PUCs. Our Non-Regulated Businesses include our:

- Contracts Operations Group, which enters into public/private partnerships, including O&M and DBO contracts for the provision of services to water and wastewater facilities for municipalities, the United States military and other customers;

- Applied Water Management Group, which works with customers to design, build and operate small water and wastewater treatment plants; and

- Homeowner Services Group, which provides services to domestic homeowners to protect against the cost of repairing broken or leaking pipes inside and outside their homes.

We report the results of this business in our Non-Regulated Businesses segment. In 2006, our Non-Regulated Businesses generated $248.5 million in operating revenue, prior to inter-segment eliminations.

History

Prior to being acquired by RWE in 2003, we were the largest publicly traded water utility company in the United States. In 2003, we were acquired by RWE and became a private company. Prior to the Merger, Thames US Holdings, formerly an indirect wholly owned subsidiary of RWE, was the holding company for us and our

regulated and unregulated subsidiaries throughout the United States and Ontario, Canada. Our consolidated statements of operations, statements of cash flow and changes in common stockholder s equity and comprehensive income (loss) for the years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2006 and 2007 and consolidated balance sheets as of December 31, 2005 and 2006 and as of June 30, 2007 have been derived from the consolidated financial statements and accounting records of Thames US Holdings and its subsidiaries.

Our consolidated statements of operations for the years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2006 and 2007 reflect expense allocations for some central corporate functions historically provided to us by RWE, including information systems, human resources, accounting and treasury activities and legal services. These allocations reflect expenses specifically identifiable as relating to our business as well as our share of expenses allocated to us based on capital employed, capital expenditures, headcount, revenues, production volumes, fixed costs, environmental accruals or other methods management considers to be reasonable. We and RWE consider these allocations to be a reasonable reflection of our utilization of the services provided by RWE. However, our expenses as a separate, stand-alone company may be higher or lower than the amounts reflected in our consolidated statements of operations.

The RWE acquisition resulted in certain changes in our business. For example, our operations and management were managed through Thames Water Plc, which we refer to as Thames Water, a former subsidiary of RWE. Also, we agreed not to file rate cases with some state PUCs for specified periods of time as a condition of the acquisition. As of June 30, 2007, all rate stay-out provisions had expired.

As a result of significantly increased costs, our inability to file rate cases and impairment charges, we recorded net losses in the amount of $64.9 million, $325.0 million and $162.2 million for the years ended December 31, 2004, 2005 and 2006, respectively.

In 2005, RWE decided to divest American Water through the sale of shares in one or more public offerings. In order to become a public company once again, we have had to incur substantial initial costs, including costs associated with ensuring adequate internal control over financial reporting in order to achieve compliance with the Sarbanes-Oxley Act. These substantial initial costs are not recoverable in rates charged to our customers. See Our Internal Control and Remediation Initiatives.

We performed valuations of our long-lived assets, investments and goodwill, as of December 31, 2004, 2005 and 2006. As a result of the valuation analyses, we recorded pretax charges of $216.0 million, $420.4 million and $227.8 million, including impairment charges from discontinued operations, for the years ended December 2004, 2005 and 2006, respectively. As a result, this reduced net income by $200.5 million, $388.6 million and $223.6 million in 2004, 2005 and 2006, respectively.

The Company estimates the fair value of our long-lived assets, investments and goodwill using available market values, discounted cash flow models from our business plan or a combination of market and discounted cash flow values. Annual impairment reviews are performed in the fourth quarter. There are a number of significant assumptions reflected in our valuation analyses. These include market interest rates used for discounting future cash flows, market value assumptions using market valuation multiples of comparable water utilities and revenue and operating income growth assumptions in our business plan. We base these assumptions on our best estimates of the Company s future performance and available market information at the time. Any decline over a period of time in the valuation multiples of comparable water utilities, a decline in the market value of our common stock and its value relative to our book equity at the consummation of this offering or a decline over a period of time of our stock price following the consummation of this offering could result in additional impairments. A decline in our forecasted results in our business plan, such as changes in rate case results or capital investment budgets or an increase in interest rates, may also result in an incremental impairment charge. In accordance with GAAP, the Company reviews goodwill annually, or more frequently, if changes in circumstances indicate the carrying value may not be recoverable. See Critical Accounting Policies and Estimates.

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Our Internal Control and Remediation Initiatives

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. However, since 2003, we have been an indirect wholly owned subsidiary of RWE, a stock corporation organized under the laws of the Federal Republic of Germany, and were not required to maintain a system of internal control consistent with the requirements of the SEC and the Sarbanes-Oxley Act, nor to prepare our own financial statements. As a public reporting company, we will be required, among other things, to maintain a system of effective internal control over financial reporting suitable to prepare our publicly reported financial statements in a timely and accurate manner, and also to evaluate and report on such system of internal control. In particular, we will be required to certify our compliance with Section 404 of the Sarbanes-Oxley Act for the year ended December 31, 2008, which will require us to perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting.

In connection with the preparation of our consolidated financial statements as of December 31, 2006, we and our independent registered public accountants have identified the following material weaknesses in our internal control over financial reporting:

- Inadequate internal staffing and skills;
- Inadequate controls over financial reporting processes;
- Inadequate controls over month-end closing processes, including account reconciliations;
- Inadequate controls over maintenance of contracts and agreements;
- Inadequate controls over segregation of duties and restriction of access to key accounting applications; and
- Inadequate controls over tax accounting and accruals.

Since joining the Company in 2006, Donald L. Correll, our Chief Executive Officer, and Ellen C. Wolf, our Chief Financial Officer, have assigned a high priority to the evaluation and remediation of our internal controls, and have taken numerous steps to remediate these material weaknesses and to evaluate and strengthen our other internal controls over financial reporting. Some of the actions taken include:

- Increasing our internal financial staff numbers and skill levels, and using external resources to supplement our internal staff where necessary;
- Implementing detailed processes and procedures related to our period end financial closing processes, key accounting applications and our financial reporting processes;
- Implementing or enhancing systems used in the financial reporting processes and month-end close processes;

Conducting extensive training on existing and newly developed processes and procedures as well as explaining to employees Sarbanes-Oxley Act requirements and the value of internal controls;

Enhancing our internal audit staff;

Hiring a director of internal control and a director of taxes;

Implementing a tracking mechanism and new policy and procedure for approval of all contracts and agreements; and

Retaining a nationally recognized accounting and auditing firm to assist management in developing policies and procedures surrounding internal controls over financial reporting, to evaluate and test these internal controls and to assist in the remediation of internal control deficiencies.

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We have allocated significant additional resources, including the hiring of additional staff, to remediate the material weaknesses identified above. As of June 30, 2007, the Company has incurred $33.8 million to remediate these material weaknesses and to document and test key financial reporting controls. We will need to allocate additional resources to enhance the quality of our staff and to remediate these material weaknesses. As a condition to state PUC approval of the RWE Divestiture, we agreed that costs incurred in connection with our initial internal control and remediation initiatives would not be recoverable in rates charged to our customers.

Elements of our remediation activities can only be accomplished over time, and our initiatives provide no assurances that they will result in an effective internal control environment. Our board of directors, in coordination with our audit committee, will continually assess the progress and sufficiency of these initiatives and make adjustments, as necessary.

Factors Affecting Our Results of Operations

As the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served, our financial condition and results of operations are influenced by a variety of industry-wide factors, including the following:

- economic utility regulation;
- the need for infrastructure investment;
- compliance with environmental, health and safety standards;
- production costs;
- customer growth;
- an overall trend of declining water usage per customer; and
- weather and seasonality.

Since our acquisition by RWE in 2003, our results of operations have also been significantly influenced by goodwill impairments.

Factors that may affect the results of operations of our Regulated Businesses operating performance are mitigated by state PUCs granting us appropriate rate relief that is designed to allow us to recover prudently incurred expenses and to earn an appropriate rate of return on our investment.

Economic Utility Regulation

Our subsidiaries in the states in which we operate our Regulated Businesses are generally subject to extensive economic regulation by their respective state PUCs. Although specific authority might differ from state to state, in most states, these state PUCs must approve rates, accounting treatments, long-term financing programs, significant capital expenditures and plant additions, transactions between the regulated subsidiary and affiliated entities, reorganizations and mergers and acquisitions, in many instances prior to their completion. Regulatory policies not only vary from state to state, they may change over time. These policies will affect the timing as well as the extent of recovery of expenses and the realized return on invested capital.

Our operating revenue is typically determined by reference to the volume of water supplied to a customer multiplied by a price-per-gallon set by a tariff approved by the relevant state PUC. The process to obtain approval for a change in rates, or rate case, involves filing a petition with the state PUC on a periodic basis as determined by our capital expenditures needs and our operating costs. Rate cases and other rate-related proceedings can take several months to a year or more to complete. Therefore, there is frequently a delay, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating expense increase and when those costs are reflected in rates. The management team at each of our regulated subsidiaries works to minimize regulatory lag.

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Our results of operations are significantly affected by rates authorized by the state PUCs in the states in which we operate, and we are subject to risks and uncertainties associated with delayed or inadequate rate recovery. In addition to the formal rate case filings, we generate revenues through other cost recovery procedures. For example, some states in which we operate allow utility subsidiaries to recover system infrastructure replacement costs without the necessity of filing a full rate proceeding. Since infrastructure replacement is a significant element of capital expenditures made by our subsidiaries, such programs can reduce regulatory lag.

Currently, Pennsylvania, Illinois, Missouri, Indiana, New York, California and Ohio have allowed the use of these infrastructure surcharges. These surcharges adjust periodically based on qualified capital expenditures being completed or anticipated in a future period. These surcharges are typically reset to zero when new base rates are effective and incorporate the costs of these infrastructure expenditures. We anticipate an increase in revenues of approximately $16.0 million in 2007, assuming constant sales volumes, as a result of these infrastructure surcharges.

Some states have permitted use of some form of forecast or forward looking test year instead of historical data to set rates. Examples of these states include Illinois, Kentucky, Ohio, New York and California. In addition, a number of states in which we operate have allowed the utility to update historical data for some changes that occur for some limited period of time subsequent to the historical test year. This allows the utility to take account of some more current costs or capital investments in the rate-setting process. Examples of these states include New Mexico, Texas, Missouri, Iowa, Virginia, Pennsylvania, Maryland, West Virginia, New Jersey and Arizona.

Another regulatory mechanism to address issues of regulatory lag includes the ability, in some circumstances, to recover in rates a return on utility plant before it is actually in service, instead of capitalizing an allowance for funds used during construction. Examples of states that have allowed such recovery include Iowa, Texas, Pennsylvania, Ohio, Kentucky and California.

The infrastructure surcharge, the forward looking test year and the allowance of a return on utility plant before it is actually in service, are examples of mechanisms that present an opportunity to limit the risks associated with regulatory lag. We employ each of these mechanisms as part of our rate case management program to ensure efficient recovery of our costs and investment and to ensure positive short-term liquidity and long-term profitability.

As a condition to our acquisition by RWE in 2003, we agreed not to file rate cases in some of the states where our Regulated Businesses operate, and our recent inactivity in rate-making is therefore not indicative of our future performance in securing appropriate and timely rate recovery through the filing of rate cases. As of June 30, 2007, all material rate stay-out provisions had expired. We have four general rate cases pending that were filed in 2006 that would provide $79.1 million in additional annualized revenues, assuming constant sales volumes, if approved as filed. During the first six months of 2007, our subsidiaries filed general rate cases in seven states that would provide $125.5 million in additional annualized revenues, assuming constant sales volumes, if approved as filed. In the first six months of 2007 we received authorizations for $81.0 million of additional annualized revenues from rates, assuming constant sales volumes. We have filed (or expect to file soon) general rate cases in six additional states before the end of 2007 that would provide $52.6 million in additional annualized revenues, assuming constant sales volumes, if approved as filed. In addition, we expect to continue to receive additional revenues through infrastructure replacement surcharges. There is no assurance that the complete amount, or any portion thereof, of any requested increases will be granted.

Infrastructure Investment

The water and wastewater utility industry is highly capital intensive. Over the next five years, we estimate that Company-funded capital investment will total between $4,000 and $4,500 million. We anticipate spending between $700 and $900 million yearly on Company-funded capital investment for the foreseeable future, depending upon the timing of major capital projects. Our capital investment includes both infrastructure renewal programs, where we replace existing infrastructure, as needed, and construction of facilities to meet new customer growth. Over the next five years, we estimate we will invest approximately $1,800 million to replace aging infrastructure including mains, meters, and supply and treatment facilities. We estimate that we will invest approximately $1,300 million in facilities to serve new customer growth over this same period. In addition, we estimate that complying with water quality standards and other regulatory requirements will require approximately $750 million of investment. Projects to enhance system reliability, security and efficiency, or to meet other needs are projected to account for approximately an additional $400 million of investment over this same period.

These capital investments are needed on an ongoing basis to comply with existing and new regulations, renew aging treatment and network assets, provide capacity for new growth and enhance system reliability, security and quality of service. The need for continuous investment presents a challenge due to the potential for regulatory lag, or the delay in recovering our operating expenses and earning an appropriate rate of return on our invested capital and a return of our invested capital. Because the decisions of state PUCs and the timing of those decisions can have a significant impact on the operations and earnings of our Regulated Businesses, we maintain a rate case management program guided by the goals of obtaining efficient recovery of costs of capital and utility operation and maintenance costs, including costs incurred for compliance with environmental, health and safety and water quality regulation. As discussed above under Economic Utility Regulation, we pursue methods to minimize the adverse impact of regulatory lag and have worked with state PUCs and legislatures to implement a number of approaches to achieve this result, including promoting the implementation of forms of forward-looking test years and infrastructure surcharges.

Compliance with Environmental, Health and Safety Standards

Our water and wastewater operations are subject to extensive United States federal, state and local and, in the case of our Canadian operations, Canadian laws and regulations, governing the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights, and the manner in which we collect, treat and discharge wastewater. These requirements include the Safe Drinking Water Act, the Clean Water Act and similar state and Canadian laws and regulations. We are also required to obtain various environmental permits from regulatory agencies for our operations. State PUCs also set conditions and standards for the water and wastewater services we deliver. We incur substantial costs associated with compliance with environmental, health and safety and water quality regulation to which our Regulated Businesses are subject.

Environmental, health and safety and water quality regulations are complex and change frequently, and the overall trend has been that they have become more stringent over time. We face the risk that as newer or stricter standards are introduced, they could increase our operating expenses. In the past, we have generally been able to recover expenses associated with compliance for environmental, health and safety standards, but this recovery is affected by regulatory lag and the corresponding uncertainties surrounding rate recovery.

Production Costs

Our water and wastewater services require significant production inputs and result in significant production costs. These costs include fuel and power, which is used to operate pumps and other equipment, purchased water and chemicals used to treat water and wastewater. We also incur production costs for waste disposal. For 2006, production costs accounted for approximately 14.4% of our total operating costs. Prices associated with these inputs impact our results of operations until rate relief is granted.

Customer Growth

Customer growth in our Regulated Businesses is driven by (i) organic population growth within our authorized service areas and (ii) by adding new customers to our regulated customer base by acquiring water and wastewater utility systems through acquisitions. Generally, we add customers through tuck-ins of small water and/or wastewater systems, typically serving fewer than 10,000 customers, in close geographic proximity to where we currently operate our Regulated Businesses. We also seek large acquisitions that allow us to acquire multiple water and wastewater utility systems in our existing markets and markets where we currently do not operate our Regulated Businesses. During 2004, 2005, and 2006, we had cash outflows of $1.6 million, $5.0 million and $12.5 million, respectively, for acquisitions of water and wastewater systems which allowed us to expand our regulated customer base. Our most recent significant acquisition was the 2002 purchase of the water and wastewater assets of Citizens Communications Company, adding approximately 300,000 customers in six states in which we had existing operations. We intend to continue to expand our regulated footprint geographically by acquiring water and wastewater systems in our existing markets and some markets in the United States where we do not currently operate our Regulated Businesses. Our experienced development team evaluates potential acquisition targets across the country, particularly in higher-growth areas. Before entering new markets, we will evaluate the regulatory environment to ensure that we will have the opportunity to achieve an appropriate return on our investment while maintaining our high standards for quality, reliability and compliance with environmental, health and safety and water quality standards. These acquisitions may include large acquisitions of companies that have operations in multiple markets. For further information, see Our Business Our Regulated Businesses Acquisitions .

Declining Water Usage Per Customer

Increased water conservation, including through the use of more efficient household fixtures and appliances among residential consumers, combined with declining household sizes in the United States, has contributed to a trend of declining water usage per residential customer.

The average annual change in residential water usage per customer from January 1998 through December 2006 (as a percentage of January 1998 usage) in the larger states served by our Regulated Businesses ranged from 0.76% per year in New Jersey at the low end to as high as 1.72% per year in West Virginia.

Because the characteristics of residential water use are driven by many factors, including socio-economic and other demographic characteristics of our service areas, climate, seasonal weather patterns and water rates, these declining trends vary by state and service area and change over time. The trend of declining residential water usage per customer is higher in the predominantly rural states served by our Regulated Businesses. We do not believe that the trend in any particular state or region will have a disproportionate impact on our results of operations.

Our Regulated Businesses are heavily dependent upon operating revenue generated from rates we charge to our residential customers for the volume of water they use. Declining usage will have a negative impact on our long-term operating revenues if we are unable to secure rate increases or to grow our residential customer base to the extent necessary to offset the residential usage decline.

Weather and Seasonality

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, overuse of sources of water, the protection of threatened species or habitats or other factors may limit the availability of ground and surface water. Also, customer usage of water is affected by weather conditions, in particular during the summer. Our water systems experience higher demand in the summer due to the warmer temperatures and increased usage by customers for lawn irrigation and other outdoor uses. Summer weather that is cooler and wetter than average generally serves to suppress customer water demand, and can have a downward effect on our operating revenue and operating income. Conversely, when weather conditions are extremely dry, our systems may be affected by drought-related warnings and/or water usage restrictions imposed by governmental agencies, also serving to reduce water allocation due to passing-flow requirements, customer demand and operating revenue. These restrictions may be imposed at a regional or state level and may affect our service areas regardless of our readiness to meet unrestricted customer demands. We employ a variety of measures to ensure that we have adequate sources of water supply, both in the short term and over the long term. For additional detail concerning these measures, see Business Our Regulated Businesses Overview of Networks, Facilities and Water Supply.

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The geographic diversity of our service areas tends to mitigate some of the effect of weather extremes. In any given summer, some areas are likely to experience drier than average weather while other areas will experience wetter than average weather.

Goodwill Impairment

At June 30, 2007, our goodwill totaled $2,962.6 million. The goodwill is associated primarily with the acquisition of American Water by an affiliate of RWE in 2003 and the acquisition of E Town Corporation in 2001, representing the excess of the purchase price the purchaser paid over the fair value of the net tangible and intangible assets acquired. As required by applicable accounting rules and principles, we have been required to reflect a non-cash charge to operating results for goodwill impairment in the amounts of $192.9 million in 2004, $396.3 million in 2005 and $227.8 million in 2006. These amounts include impairments relating to discontinued operations.

Our annual goodwill impairment test is completed during the fourth quarter. We have processes to monitor for interim triggering events. During the third quarter of 2007, as a result of our debt being placed on review for a possible downgrade and the proposed RWE Divestiture, management determined at that time it was appropriate to update its valuation analysis before the next scheduled annual test.

Based on this assessment, we are performing an interim impairment test and expect to record an impairment charge to goodwill to our Regulated Businesses in the amount of approximately $243.3 million in the third quarter of 2007. The decline was primarily due to a slightly lower long-term earnings forecast caused by updated customer demand and usage expectations and expectations for timing of capital expenditures and rate recovery.

We may be required to recognize additional impairments in the future due to, among other things, a decline in the market value of our stock, a decline in our forecasted results as compared to the business plan, changes in interest rates or a change in rate case results. Further recognition of additional material impairments of goodwill would negatively affect our results of operations and total capitalization.

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Results of Operations

The following table sets forth our consolidated statement of operations data for the years ended December 31, 2004, 2005, and 2006 and the six months ended June 30, 2006 and 2007:

	For the years ended December 31,			For the six months ended June 30,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
	(dollars in thousands except for share and per share data)				
Operating revenues	$ 2,017,871	$ 2,136,746	$ 2,093,067	$ 1,007,691	$ 1,027,277
Operating expenses					
Operation and maintenance	1,121,970	1,201,566	1,174,544	562,072	581,999
Depreciation and amortization	225,260	261,364	259,181	128,728	132,764
General taxes	170,165	183,324	185,065	94,756	93,819
Loss (gain) on sale of assets	(8,611)	(6,517)	79	(1,795)	(6,113)
Impairment charges	78,688	385,434	221,685		
Total operating expenses, net	1,587,472	2,025,171	1,840,554	783,761	802,469
Operating income (loss)	430,399	111,575	252,513	223,930	224,808
Other income (deductions)					
Interest	(315,944)	(345,257)	(365,970)	(178,968)	(142,970)
Allowance for other funds used during construction	5,476	5,810	5,980	3,145	3,169
Allowance for borrowed funds used during construction	2,923	2,420	2,652	1,366	1,512
Amortization of debt expense	(3,377)	(4,367)	(5,062)	(1,678)	(2,397)
Preferred dividends of subsidiaries	(410)	(227)	(215)	(112)	(113)
Other, net	6,361	5,895	1,164	528	2,783
Total other income (deductions)	(304,971)	(335,726)	(361,451)	(175,719)	(138,016)
Income (loss) from continuing operations before income taxes	125,428	(224,151)	(108,938)	48,211	86,792
Provision for income taxes	66,328	50,979	46,912	20,056	34,378
Income (loss) from continuing operations	59,100	(275,130)	(155,850)	28,155	52,414
Income (loss) from discontinued operations, net of tax	(124,018)	(49,910)	(6,393)	1,703	(551)
Net income (loss)	$ (64,918)	$ (325,040)	$ (162,243)	$ 29,858	$ 51,863
Net income (loss) per common share:					
Basic					
Income (loss) from continuing operations	$ 59,100	$ (275,130)	$ (155,850)	$ 28,155	$ 52,414
Income (loss) from discontinued operations, net of tax	$ (124,018)	$ (49,910)	$ (6,393)	$ 1,703	$ (551)
Net income (loss)	$ (64,918)	$ (325,040)	$ (162,243)	$ 29,858	$ 51,863
Diluted					
Income (loss) from continuing operations	$ 59,100	$ (275,130)	$ (155,850)	$ 28,155	$ 52,414

Income (loss) discontinued operations, net of tax	$ (124,018)	$ (49,910)	$ (6,393)	$ 1,703	$ (551)
Net income (loss)	$ (64,918)	$ (325,040)	$ (162,243)	$ 29,858	$ 51,863
Average common shares outstanding during the period:					
Basic	1,000	1,000	1,000	1,000	1,000
Diluted	1,000	1,000	1,000	1,000	1,000

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The following table summarizes certain financial information for our Regulated and Non-Regulated Businesses for the periods indicated (without giving effect to inter-segment eliminations):

	For the years ended December 31,						For the six months ended June 30,			
	2004		2005		2006		2006		2007	
	Regulated Businesses	Non-Regulated Businesses	Regulated Businesses	Non-Regulated Businesses	Regulated Businesses	Non-Regulated Businesses	Regulated Businesses (unaudited)	Non-Regulated Businesses (unaudited)	Regulated Businesses (unaudited)	Non-Regulated Businesses (unaudited)
	(dollars in thousands)									
Operating revenues	$ 1,748,004	$ 290,037	$ 1,836,061	$ 310,771	$ 1,854,618	$ 248,451	$ 883,017	$ 129,428	$ 927,910	$ 106,960
Adjusted EBIT[1]	$ 482,127	$ 17,117	$ 469,921	$ (106)	$ 468,701	$ (4,725)	$ 220,555	$ 342	$ 210,052	$ 14,031

(1) Refer to Note 21 of the audited consolidated financial statements for the Company s definition of Adjusted EBIT.

Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers. As such, our results of operations are significantly impacted by rates authorized by the state PUCs in the states in which we operate. The table below details the annualized revenues (assuming constant sales volumes) resulting from rate authorizations, including distribution infrastructure and other surcharges, granted in 2004, 2005, 2006 and through June 30, 2007.

	Annualized Rate Increases Granted During the years			
	2004	2005	2006	2007
	(dollars in millions)			
State				
New Jersey	$ 29.7	$	$	$ 56.2
Pennsylvania	28.6	5.8	8.0	6.6
Missouri	(0.4)		6.8	2.6
Illinois			0.9	1.7
Indiana	2.7	0.9	1.8	
California	7.2	8.4	15.1	0.5
West Virginia	1.8	10.0		
Other	9.5	9.9	8.7	13.4
Total	$ 79.1	$ 35.0	$ 41.3	$ 81.0

Comparison of Results of Operations for the Six Months Ended June 30, 2007 to the Six Months Ended June 30, 2006

Operating revenues. Our consolidated operating revenues increased $19.6 million, or 1.9%, from $1,007.7 million for the six months ended June 30, 2006, to $1,027.3 million for the six months ended June 30, 2007. An increase in operating revenues for our Regulated Businesses was somewhat offset by a decrease in operating revenues for our Non-Regulated Businesses. The increase in the Regulated Businesses operating revenues was primarily due to rate increases obtained through general rate cases in New Jersey, California, Arizona and other states, totaling approximately $26.5 million. In addition, rate increases obtained through infrastructure surcharges, primarily in Pennsylvania, Missouri, Illinois and Indiana, totaled approximately $8.0 million. Water service operating revenues increased due to growth of 0.9% in our Regulated Businesses customer base. Water sales volume associated with existing customers increased by 0.4% for our Regulated Businesses.

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The following table sets forth the percentage of our Regulated Businesses operating revenues and water sales volume by customer class:

	For the six months ended June 30,			
	Operating Revenues		Water Sales Volume	
	2006	2007	2006	2007
Water service:				
Residential	57.3%	57.7%	51.6%	52.3%
Commercial	19.5%	19.0%	21.9%	21.8%
Industrial	5.1%	5.0%	11.1%	10.8%
Public and other	13.1%	12.6%	15.4%	15.1%
Other water revenues	1.1%	1.7%		
Total water revenues	96.1%	96.0%	100.0%	100.0%
Wastewater service	3.7%	3.8%		
Management fees	0.2%	0.2%		
	100.0%	100.0%		

Water Services Water service operating revenues from residential customers for the six months ended June 30, 2007 amounted to $535.3 million, a 5.9% increase over the same period in 2006 primarily due to rate increases and changes in sales volume. The volume of water sold to residential customers increased by 2.2% for the six months ended June 30, 2007 to 99.1 billion gallons, from 96.9 billion gallons for the same period in 2006, largely as a result of favorable weather conditions and an increased residential customer base.

Water service operating revenues from commercial customers for the six months ended June 30, 2007 amounted to $176.0 million, a 2.3% increase over the same period in 2006, primarily due to rate increases and changes in sales volume. The volume of water sold to commercial customers increased by 0.5% for the six months ended June 30, 2007 to 41.3 billion gallons, from 41.1 billion gallons for the same period in 2006, with favorable weather conditions being offset by declines in our commercial customer base.

Water service operating revenues from industrial customers for the six months ended June 30, 2007 amounted to $46.1 million, a 3.0% increase over the same period in 2006, primarily due to rate increases and changes in sales volume. The volume of water sold to industrial customers decreased by 2.0% for the six months ended June 30, 2007 to 20.5 billion gallons, from 20.9 billion gallons for the same period in 2006, largely as a result of the loss of industrial customers due to economic and business conditions in our service area.

Water service operating revenues from public and other customers for the six months ended June 30, 2007 amounted to $116.7 million, a 0.6% increase over the same period in 2006. Water service operating revenues from municipal governments for fire protection services and customers requiring special private fire service facilities for the six months ended June 30, 2007 amounted to $49.2 million, a 2.0% decrease over the same period in 2006. Water service operating revenues from governmental entities and resale customers for the six months ended June 30, 2007 amounted to $67.5 million, a 2.6% increase over the same period in 2006.

Wastewater Services Our subsidiaries provide wastewater services in 11 states. Operating revenues from these services increased by 7.9% to $35.4 million for the six months ended June 30, 2007, from $32.8 million for the same period in 2006. The increase was attributable to 1.5% growth in the number of wastewater customers served, with the remainder of the change due to increases in rates charged to customers in states where we have wastewater operations (principally Arizona, Hawaii and New Jersey).

Our Non-Regulated Businesses operating revenues decreased by $22.4 million, or 17.3%, from $129.4 million for the six months ended June 30, 2006 to $107.0 million for the six months ended June 30, 2007.

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The decline was primarily attributable to the inclusion in 2006 of approximately $28.5 million in operating revenues for work performed under a contract to design and build the Lake Pleasant Water Treatment Plant in Phoenix, Arizona. Pursuant to our DBO contract with the city of Phoenix, Arizona, we served as the lead contractor in connection with the construction of the Lake Pleasant facility, which includes an 80 million gallon per day surface water treatment plant and granular activated carbon reactivation system. The Lake Pleasant facility is significantly larger in size and function compared to other projects with which we have been engaged. However, we do not expect the completion of this project to have a material impact on our results of operations. The decrease in our Non-Regulated Businesses operating revenues also reflects operating contracts that ended during 2006. These decreases were partially offset by expansion into new geographic markets by the Homeowners Services Group (Virginia and Trenton, New Jersey) and a new contract awarded to American Water Enterprises in Fillmore, California for a DBO project.

Operation and maintenance. Our consolidated operation and maintenance expense increased $19.9 million, or 3.5%, from $562.1 million for the six months ended June 30, 2006, to $582.0 million for the six months ended June 30, 2007.

Operation and maintenance expense by major category was as follows:

For the six months ended June 30,