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AMERICAN WATER WORKS CO INC

Form 10-Q

November 14, 2002

CONFORMED COPY

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-3437-2

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware

51-0063696

(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

1025 Laurel Oak Road, Voorhees, New Jersey 08043

(Address of principal executive offices) (Zip Code)

(856) 346-8200

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since
last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days. Yes X No

At November 1, 2002, the number of shares of common stock, \$1.25 par value,
outstanding was 100,070,453 shares.

PART I FINANCIAL INFORMATION

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Item 1. Financial Statements

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Statements of Income and Comprehensive Income
and of Retained Earnings (Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30, 2002	2001
	-----	-----
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	\$483,457	\$394,956
	-----	-----
Operating expenses		
Operation and maintenance	242,955	166,890
Depreciation and amortization	57,032	46,819
General taxes	35,363	33,049
	-----	-----
Total operating expenses	335,350	246,758
	-----	-----
Operating income	148,107	148,198
	-----	-----
Other income (deductions)		
Interest	(55,976)	(47,512)
Allowance for other funds used during construction	2,377	1,098
Allowance for borrowed funds used during construction	1,342	968
Amortization of debt expense	(728)	(694)
Preferred dividends of subsidiaries	(655)	(750)
Merger expenses	(1,647)	(9,860)
Gain from sale of operating systems	-	4,820
Gain on sale of other investments	-	1,810
Other, net	796	(329)
	-----	-----
Total other income (deductions)	(54,491)	(50,449)
	-----	-----
Income before income taxes	93,616	97,749
Provision for income taxes	38,428	41,972
	-----	-----
Net income	55,188	55,777
Dividends on preferred stocks	-	146
	-----	-----
Net income to common stock	55,188	55,631

	Three Months Ended September 30, 2002	2001
	-----	-----
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities	866	(12,181)

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Reclassification adjustment for gain included in net income	-	(1,104)
Foreign currency translation adjustment	(1,242)	-
	-----	-----
Other comprehensive income (loss), net of tax	(376)	(13,285)
	-----	-----
Comprehensive income	\$ 54,812	\$ 42,346
	=====	=====
Average shares of basic common stock outstanding	100,062	99,723
Earnings per average common share outstanding		
Basic	\$.55	\$.56
	=====	=====
Diluted	\$.55	\$.56
	=====	=====
CONSOLIDATED RETAINED EARNINGS		
Balance at July 1	\$1,173,145	\$1,096,271
Add - net income	55,188	55,777
Preferred stock redemption premium	(37)	-
Gain on treasury stock	-	57
	-----	-----
	1,228,296	1,152,105
	-----	-----
Deduct - dividends paid		
Preferred stock	-	32
Preference stock	-	114
Common stock - \$.245 per share in 2002;		
\$.235 per share in 2001	24,512	23,409
	-----	-----
	24,512	23,555
	-----	-----
Balance at September 30	\$1,203,784	\$1,128,550
	=====	=====

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

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Statements of Income and Comprehensive Income
and of Retained Earnings (Unaudited)
(In thousands, except per share amounts)

	Nine Months Ended
	September 30,
2002	2001
-----	-----

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CONSOLIDATED INCOME AND COMPREHENSIVE INCOME

Operating revenues	\$1,292,211	\$1,075,261
	-----	-----
Operating expenses		
Operation and maintenance	674,506	478,189
Depreciation and amortization	170,292	136,248
General taxes	105,595	98,825
	-----	-----
Total operating expenses	950,393	713,262
	-----	-----
Operating income	341,818	361,999
	-----	-----
Other income (deductions)		
Interest	(170,399)	(144,653)
Allowance for other funds used during construction	5,908	3,364
Allowance for borrowed funds used during construction	3,512	3,035
Amortization of debt expense	(2,119)	(2,082)
Preferred dividends of subsidiaries	(2,063)	(2,275)
Merger expenses	(3,380)	(9,860)
Gain from sale of operating systems	50,709	4,820
Gain on sale of other investments	11,702	5,177
Gain on sale of land	15,851	-
Other, net	813	(1,301)
	-----	-----
Total other income (deductions)	(89,466)	(143,775)
	-----	-----
Income before income taxes	252,352	218,224
Provision for income taxes	115,286	89,605
	-----	-----
Income before cumulative effect of change in accounting principle	137,066	128,619
Cumulative effect of change in accounting principle	2,679	-
	-----	-----
Net income	139,745	128,619
Dividends on preferred stocks	146	438
	-----	-----
Net income to common stock	139,599	128,181
	-----	-----

Nine Months Ended
September 30,
2002 2001

	-----	-----
Other comprehensive income (loss), net of tax		
Unrealized loss on securities	(7,596)	(16,636)
Reclassification adjustment for (gain) loss included in net income	5,837	(3,158)
Foreign currency translation adjustment	165	-
	-----	-----
Other comprehensive income (loss), net of tax	(1,594)	(19,794)
	-----	-----

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Comprehensive income	\$ 138,005	\$ 108,387
	=====	=====
Average shares of basic common stock outstanding	100,041	99,287
Earnings per average common share outstanding		
Income before cumulative effect of change in accounting principle	\$ 1.37	\$ 1.29
Cumulative effect of change in accounting principle	.03	-
	-----	-----
Basic	\$ 1.40	\$ 1.29
	=====	=====
Income before cumulative effect of change in accounting principle	\$ 1.36	\$ 1.29
Cumulative effect of change in accounting principle	.03	-
	-----	-----
Diluted	\$ 1.39	\$ 1.29
	=====	=====
CONSOLIDATED RETAINED EARNINGS		
Balance at January 1	\$1,137,772	\$1,069,486
Add - net income	139,745	128,619
Preferred stock redemption premium	(62)	-
Gain on treasury stock	-	801
	-----	-----
	1,277,455	1,198,906
	-----	-----
Deduct - dividends paid		
Preferred stock	32	96
Preference stock	114	342
Common stock - \$.735 per share in 2002;		
\$.705 per share in 2001	73,525	69,918
	-----	-----
	73,671	70,356
	-----	-----
Balance at September 30	\$1,203,784	\$1,128,550
	=====	=====
The accompanying notes are an integral part of these financial statements.		

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet (Unaudited) (In thousands)

	September 30, 2002	December 31, 2001
	-----	-----
ASSETS		
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	\$ 6,076,022	\$ 5,458,909

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Utility plant acquisition adjustments, net	211,306	68,916
Non-utility property, net of accumulated depreciation	99,480	94,149
	-----	-----
Total property, plant and equipment	6,386,808	5,621,974
	-----	-----
Current assets		
Cash and cash equivalents	40,031	19,691
Utility customer accounts receivable	139,618	105,101
Allowance for uncollectible accounts	(4,320)	(2,860)
Unbilled revenues	94,602	86,065
Other receivables, net	69,909	59,724
Materials and supplies	33,610	32,281
Deferred vacation pay	12,503	11,422
Other	23,301	19,164
	-----	-----
Total current assets	409,254	330,588
	-----	-----
Regulatory and other long-term assets		
Regulatory asset - income taxes recoverable through rates	213,377	217,330
Other investments	22,394	39,956
Debt and preferred stock expense	47,332	45,882
Deferred pension expense	38,085	30,712
Deferred postretirement benefit expense	8,650	9,318
Deferred security costs	26,259	7,058
Deferred business services project expenses	42,513	36,311
Deferred insurance expense	8,102	4,998
Deferred tank painting costs	13,468	16,585
Restricted funds	-	8,570
Goodwill	238,883	136,488
Intangible assets	72,295	23,400
Other	87,152	77,929
	-----	-----
Total regulatory and other long-term assets	818,510	654,537
	-----	-----
TOTAL ASSETS	\$ 7,614,572	\$ 6,607,099
	=====	=====

	September 30, 2002	December 31, 2001
	-----	-----
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stockholders' equity	\$ 1,823,278	\$ 1,758,018
Preferred stocks without mandatory redemption requirements	-	11,673
Preferred stocks of subsidiaries with mandatory redemption requirements	28,254	30,474
Preferred stocks of subsidiaries without mandatory redemption requirements	5,708	7,268
Long-term debt		
American Water Works Company, Inc.	169,000	297,000
Subsidiaries	3,298,763	2,253,019
	-----	-----

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Total capitalization	5,325,003	4,357,452	
	-----	-----	
Current liabilities			
Short-term debt	196,965	414,083	
Current portion of long-term debt	285,502	166,087	
Accounts payable	48,567	67,996	
Taxes accrued, including federal income	61,316	21,756	
Interest accrued	86,720	43,015	
Accrued vacation pay	12,731	11,577	
Other	109,232	100,220	
	-----	-----	
Total current liabilities	801,033	824,734	
	-----	-----	
Regulatory and other long-term liabilities			
Advances for construction	265,335	230,801	
Deferred income taxes	629,997	624,449	
Deferred investment tax credits	35,938	38,633	
Accrued pension expense	73,200	62,355	
Accrued postretirement benefit expense	14,272	13,808	
Accrued insurance expense	11,526		5,020
Other	40,722	35,987	
	-----	-----	
Total regulatory and other long-term liabilities	1,070,990	1,011,053	
	-----	-----	
Contributions in aid of construction	417,546	413,860	
	-----	-----	
Commitments and contingencies	--	--	
	-----	-----	
TOTAL CAPITALIZATION AND LIABILITIES	\$ 7,614,572	\$ 6,607,099	
	=====	=====	

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

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2002	2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 139,745	\$ 128,619
Adjustments		
Depreciation and amortization	170,292	136,248
Cumulative effect of change in accounting Principle	(2,679)	-
Gain from sale of operating systems	(50,709)	(4,820)
Gain on sale of other investments	(22,466)	(5,177)
Loss on write down of other investments	10,764	-
Gain on sale of land	(15,851)	-

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Provision for deferred income taxes	31,553	10,148
Provision for losses on accounts receivable	10,689	7,266
Allowance for other funds used during construction	(5,908)	(3,364)
Employee benefit expenses greater (less) than funding	4,090	525
Employee stock plan expenses	3,351	3,745
Deferred regulatory costs	(28,043)	(32,042)
Amortization of deferred charges	16,020	12,332
Other, net	(5,727)	(2,683)
Changes in assets and liabilities, net of effects from acquisitions		
Accounts receivable	(45,623)	(34,576)
Unbilled revenues	(8,997)	(10,290)
Other current assets	(7,239)	(3,391)
Accounts payable	(22,345)	(6,103)
Taxes accrued, including federal income	37,795	60,442
Interest accrued	45,239	6,512
Other current liabilities	9,305	(1,107)
Net cash from operating activities	263,256	262,284
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(294,678)	(251,225)
Allowance for other funds used during construction	5,908	3,364
Acquisitions	(898,047)	(55,859)
Proceeds from the sale of assets	164,684	19,359
Removal costs from property, plant and equipment retirements	(5,002)	(9,633)
Restricted funds	8,570	(247)
Net cash used in investing activities	(1,018,565)	(294,241)

Nine Months Ended

	September 30, 2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,119,317	148,321
Proceeds from common stock	1,583	34,736
Purchase of common stock for treasury	(36)	(932)
Net borrowings (repayments) under short-term debt agreements	(209,515)	35,377
Advances and contributions for construction, net of refunds	35,811	22,109
Debt issuance costs	(6,782)	(1,004)
Repayment of long-term debt	(76,912)	(119,304)
Redemption of preferred stocks	(14,146)	(2,204)
Dividends paid	(73,671)	(70,356)
Net cash from financing activities	775,649	46,743
Net increase in cash and cash equivalents	20,340	14,786

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Cash and cash equivalents at January 1	19,691	28,571
	-----	-----
Cash and cash equivalents at September 30	\$ 40,031	\$ 43,357
	=====	=====

Common stock placed into treasury in connection with the Employees Stock Ownership Plan, the Savings Plan for Employees, and 2000 Stock Award and Incentive Plan totaled \$983 in 2002 and \$1,774 in 2001.

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

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Information Accompanying Financial Statements (Unaudited)
(In thousands, except share and per share amounts)

	September 30, 2002	December 31, 2001
	-----	-----
Preferred stocks without mandatory redemption requirements (All outstanding shares redeemed March 1, 2002)		
Cumulative preferred stock - \$25 par value		
Authorized 1,770,000 shares		
5% series (one-tenth of a vote per share)		
- 101,777 shares outstanding in 2001	\$ --	\$ 2,544
Cumulative preference stock - \$25 par value		
Authorized - 750,000 shares		
5% series (non-voting) - 365,158 shares		
outstanding in 2001	--	9,129
Cumulative preferential stock - \$35 par value		
Authorized - 3,000,000 shares		
(one-tenth of a vote per share)-		
no outstanding shares	--	--
	-----	-----
	\$ --	\$ 11,673
	=====	=====

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Common stockholders' equity		
Common stock - \$1.25 par value		
Authorized - 300,000,000 shares		
Issued	- 100,086,564 shares in 2002;	
	100,016,273 shares in 2001	
	\$ 125,108	\$ 125,020
Paid-in capital	490,704	489,868
Retained earnings	1,203,784	1,137,772
Accumulated other comprehensive income	4,364	5,958
Unearned compensation	-	(539)
Treasury stock at cost - 16,111 shares in 2002; 1,891 shares in 2001	(682)	(61)
	-----	-----
	\$1,823,278	\$1,758,018
	=====	=====

At September 30, 2002, common shares reserved for issuance in connection with the Company's stock plans were 80,865,863 shares for the Stockholder Rights Plan, 1,641,852 shares for the Dividend Reinvestment and Stock Purchase Plan, 565,493 shares for the Employees' Stock Ownership Plan and 532,381 shares for the Savings Plan for Employees. Up to 4,234,367 shares of common stock may be issued under the 2000 Stock Award and Incentive Plan, of which approximately 3,300,000 shares were available to be granted at September 30, 2002.

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 -- Financial Statement Presentation

The information presented in this Form 10-Q is unaudited. In the opinion of management the information reported reflects all adjustments which were necessary to a fair statement of the results for the periods reported. Certain reclassifications have been made to conform previously reported data to the current presentation.

NOTE 2 -- Merger Agreement with RWE

On September 16, 2001 the Company entered into a merger agreement with RWE Aktiengesellschaft and Thames Water Aqua Holdings GmbH, which is RWE's holding company for its global water business, to merge with a subsidiary of RWE and become a wholly owned indirect subsidiary of RWE. Under the terms of the merger agreement RWE will purchase all the outstanding shares of American Water Works Company common stock at a price of \$46.00 per share in cash.

RWE is a global multi-utility company that does business through its subsidiaries and affiliates in over 120 countries. Its core businesses are electricity, gas, water, and waste and recycling. Upon completion of the transaction, American Water will be combined with the U.S. operations of Thames Water Plc, RWE's London-based international water services business. American Water will manage the joint operations in North, Central and South America.

The transaction was approved at a special meeting of the stockholders of

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American Water Works Company on January 17, 2002. Before the transaction can be completed, state and federal regulatory approvals are required. As of the end of January 2002, all of the applications for approval were filed where required by state regulatory authorities. The states where applications for approval have been filed are Arizona, California, Hawaii, Illinois, Kentucky, Maryland, New Jersey, New Mexico, New York, Pennsylvania, Tennessee, Virginia and West Virginia. The states of Georgia and Michigan do not regulate the Company's utility operations, and the states of Indiana, Iowa, Missouri, Ohio and Texas have no statutory jurisdiction over the RWE transaction. The Company is still awaiting approval in five states. Those states are Arizona, California, Illinois, New Jersey and New York. In Arizona the briefing process has been completed and the Commission is expected to reach a decision by the latter part of November. In California a schedule for processing the request has been issued by the Commission that could result in an Administrative Law Judge (ALJ) assigned to the case issuing a recommended decision no later than December 19, 2002. Once the ALJ's decision is issued there is a 25-day period for comments by the applicants and intervenors before the record is presented to the Commission for decision. In Illinois the ALJ has issued a decision recommending approval of the transaction with conditions. The date to file exceptions to that decision has expired. The Commission's decision is anticipated prior to the statutory deadline of November 21, 2002. In New Jersey briefing will be completed by November 18, 2002 and a final decision is anticipated in the fourth quarter. In New York an accord has been reached with the Commission Staff that could be reviewed by the Commission at its November 20, 2002 public meeting. Settlement was earlier reached with the labor union that represents a portion of the Company's workforce and resulted in the Union's recommendation that the Commission approve the acquisition. Since approving the transaction in May, the Kentucky Public Service Commission reaffirmed its decision and clarified some of the conditions set forth in its original order. Several parties to the Kentucky proceedings have appealed the Kentucky Commission's decision in a consolidated action before a Kentucky state court, which will consider no evidence other than the record that was before the Kentucky Commission. Although the West Virginia Public Service Commission approved the transaction subject only to conditions as to which the Company is seeking clarification, the West Virginia attorney general has petitioned the Commission seeking to intervene in the proceedings. Although the Indiana Utility Regulatory Commission does not have statutory jurisdiction over the transaction, that Commission is conducting a review of the transaction. The Company made a Hart-Scott-Rodino filing with the Federal Trade Commission in the second quarter of 2002 and the investigation period expired without additional inquiry. The Company continues to believe that the original projection for a closing to occur some time during the first six months of 2003 remains a reasonable expectation.

One condition of the agreement requires the Company to redeem its publicly traded preferred stock prior to closing. That redemption was completed on March 1, 2002.

During the first nine months of 2002 and 2001 the Company recorded charges of \$3.4 million and \$9.9 million, respectively, reflecting costs incurred in connection with the merger. The merger related costs have been reported on a separate line in the consolidated statement of income and comprehensive income. No tax benefit was recognized for these expenses, which are mostly legal fees, because it is not probable that these costs will be deductible for tax purposes.

On November 6, 2001 the Company and its financing subsidiary, American Water Capital Corp. (AWCC), executed a Note Purchase Agreement with RWE for \$1.2 billion in senior unsecured notes at an interest rate of 4.92%. The

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notes were purchased at par by RWE and mature on November 6, 2006. The Company and its subsidiaries used the proceeds from the sale of the notes to acquire the common stock of Azurix North America Corp. and Azurix Industrials Corp., to fund the acquisition of the water and wastewater assets of Citizens Communications Company and to reduce outstanding short-term debt. Closing occurred in two tranches with one on November 6, 2001 in the amount of \$298.5 million and another on January 14, 2002 in the amount of \$900 million.

On June 12, 2002 the Company and AWCC executed a Note Purchase Agreement with RWE for \$320 million in senior unsecured notes. The agreement calls for up to \$170 million in notes at an interest rate of 5.65% maturing on June 12, 2007 and \$150 million in notes at a floating interest rate based on LIBOR rates plus 20 basis points maturing on June 26, 2003. Closing occurred on \$40 million of the 5.65% senior notes on June 12, 2002 and closing on the remaining \$130 million of 5.65% notes took place on September 30, 2002. AWCC intends to issue the floating rate notes in the fourth quarter and will use the proceeds to repay other short-term debt.

NOTE 3 -- Business Combinations/Goodwill and Other Intangible Assets, Adoption of New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), collectively referred to as the "Standards." SFAS 141 supersedes Accounting Principles Board Opinion (APB) No. 16, "Business Combinations." The provisions of SFAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provided specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142 the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS 142 supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives. The Company adopted the provisions of the Standards on January 1, 2002.

The Standards require the excess of the fair values of acquired net assets over cost recorded in the statement of financial position to be recognized as the effect of a change in accounting principle as of the date SFAS 141 is initially applied in its entirety. In compliance with this transition requirement the Company recognized a \$2.7 million gain on January 1, 2002.

During the second quarter of 2002 the Company completed the process of making the determinations as to what its reporting units are and what amounts of goodwill, intangible assets, other assets and liabilities should be allocated to those reporting units as of January 1, 2002. The Company's reporting units are the 27 separate regulated utility subsidiaries (including the five New England subsidiaries that were sold on April 25, 2002) and unregulated services reporting units at American

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Water Resources and American Water Services. The Company's carrying value of goodwill at January 1, 2002 was \$139.2 million, of which \$23.4 million was assigned to various regulated subsidiaries and \$115.8 million was assigned to American Water Services. Intangible assets with an assigned value of \$23.4 million (subsequently adjusted to \$14.2 million in 2002) were management contracts at American Water Services that have a finite life.

A transitional impairment test for goodwill as of January 1, 2002 was completed by the Company in the second quarter of 2002. Income and market approaches were used for reporting unit valuations. The methodologies used to implement the market approach were the market multiples methodology, which results in an indication of value by comparing the business being valued to guideline publicly traded companies, and the similar transactions methodology, which develops an indication of value based on prices paid for comparable businesses. The methodology used to implement the income approach was the capitalized income approach that bases the value of an asset on the future cash flows attributable to that asset. Based on these approaches the Company determined that goodwill is not currently impaired. The Company will perform required annual impairment tests in the fourth quarter after the long-term planning process has been completed.

The Company is no longer recording \$1.7 million of annual tax deductible amortization relating to the goodwill associated with the 1999 acquisition of its joint venture partner's interest in AmericanAnglian Environmental Technologies. The remainder of the goodwill and intangible assets at January 1, 2002 were not being amortized because they are related to business combinations completed after the July 1, 2001 effective date of SFAS 141 or the goodwill was related to acquisitions that occurred prior to October 31, 1970 that was not being amortized because in the opinion of management there had been no diminution in value. The following table reflects consolidated results adjusted as though the adoption of the Standards occurred as of the beginning of the three and nine-month periods ended September 30, 2001:

(\$000's except per share amounts)
2002
2001

Three months ended September 30

Reported net income
\$55,188
\$55,777
Add back goodwill amortization
-
269
Adjusted net income
\$55,188
\$56,046

Basic earnings per share:

Reported net income

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\$.55

\$.56

Goodwill amortization

-

-

Adjusted net income

\$.55

\$.56

Diluted earnings per share:

Reported net income

\$.55

\$.56

Goodwill amortization

-

-

Adjusted net income

\$.55

\$.56

Nine months ended September 30

Reported income before cumulative
effect of change in
accounting principle

\$137,066

\$128,619

Add back goodwill amortization

-

807

Adjusted income before cumulative
effect of change in accounting
principle

\$137,066

\$129,426

Reported net income

\$139,745

\$128,619

Add back goodwill amortization

-

807

Adjusted net income

\$139,745

\$129,426

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Basic earnings per share:

Income before cumulative effect
of change in accounting
principle

\$1.37

\$1.29

Cumulative effect of change in
accounting principle

.03

-

As reported

1.40

1.29

Goodwill amortization

-

.01

Adjusted

\$1.40

\$1.30

Diluted earnings per share:

Income before cumulative effect of
change in accounting principle

\$1.36

\$1.29

Cumulative effect of change in
accounting principle

.03

-

As reported

1.39

1.29

Goodwill amortization

-

.01

Adjusted

\$1.39

\$1.30

NOTE 4 -- Acquisition Of Water And Wastewater Assets Of Citizens
Communications Company

On January 15, 2002 the Company and its subsidiaries completed their
acquisition of all of the water and wastewater assets of Citizens
Communications Company (NYSE:CZN) for \$859 million in cash and \$120
million of assumed liabilities. Upon completion of the audited closing
statement of net assets a final purchase price will be agreed upon. At

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this time the Company expects a minor decrease in the purchase price. The acquired operations provide water and wastewater service to almost 300,000 regulated customers in Arizona, California, Illinois, Indiana, Ohio and Pennsylvania. Citizens also had developed a water supply project in Illinois with the possibility of additional wholesale customers along the pipeline.

The Company is completing the determination of the amounts to be assigned to intangible assets and goodwill. At September 30, 2002, \$84.2 million and \$59.6 were recorded as goodwill and intangibles, respectively, in connection with this transaction. A value of \$54.4 million was assigned to intangible assets with an indefinite life, and \$5.3 million of value was assigned to intangible assets with lives ranging from 15 to 21 years.

The purchase price for these assets was consistent with the multiples paid in other similar transactions. Regulatory and strategic considerations contributed to a purchase price that resulted in the recognition of goodwill. The assets reside in progressive regulatory environments where the Company currently operates and broadens the geographic diversity of the Company's total operations. The inclusion of the acquired customers in California and Arizona increases the Company's customers in the Western United States to 10% of its total customer base. With the acquisition, the Company becomes one of the principal water purveyors in the Phoenix area and strengthens its competitive position for the privatization opportunities in this rapidly growing region and the other states included in the acquisition footprint.

The unaudited pro forma results listed below were prepared as if the acquisition occurred on January 1, 2001 and include the historical results of the Company and of the acquired operations. The unaudited pro forma information is not necessarily indicative of the results of operations that might have occurred had the acquisition actually taken place on the date indicated, or of future results of operations of the combined entities:

(\$000's except per share amounts)

Three months ended September 30,	2002	2001	
Revenues		\$ 483,457	\$ 429,
Net income		55,188	
Earnings per average common share outstanding			
Basic		\$.55	
Diluted		\$.55	
Nine months ended September 30,	2002	2001	
Revenues		\$1,297,035	\$1,164,
Income before cumulative effect of change in accounting principle	135,628	123,740	
Net income		138,307	1
Earnings per average common share outstanding			
Income before cumulative effect of change in accounting principle	\$1.35	\$1.24	
Cumulative effect of change in accounting principle		.03	
Basic		\$1.38	
Income before cumulative effect of change in accounting principle	\$1.35	\$1.24	

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Cumulative effect of change in accounting principle	.03
Diluted	\$1.38

NOTE 5 -- Acquired Intangible Assets

As of September 30, 2002

(\$000's)

Gross

Carrying

Amount

Accumulated

Amortization

Amortized intangible assets

O&M contracts	
\$18,500	
\$(1,491)	
Communication sites	
970	
(35)	
Total	
\$19,470	
\$(1,526)	

Unamortized intangible assets

Franchise rights	
\$54,351	

Estimated amortization expense:

For year ended 12/31/03	
\$ 1,634	

For year ended 12/31/04	
\$ 1,694	

For year ended 12/31/05	
\$ 1,753	

For year ended 12/31/06	
\$ 1,812	

For year ended 12/31/07	
\$ 1,799	

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NOTE 6 -- Goodwill

(\$000's)
Regulated
Utility
Services

Unregulated
Services

Total

Balance as of December 31, 2001

\$ 20,715

\$115,773

\$136,488

Cumulative effect of change
in accounting principle

2,679

-

2,679

Balance as of January 1, 2002

23,394

115,773

139,167

Goodwill acquired during year

84,224

-

84,224

Adjust purchase accounting

-

15,492

15,492

Balance as of September 30, 2002

\$107,618

\$131,265

\$238,883

NOTE 7 -- Other Investments

On April 2, 2002 the Company tendered approximately 2.2 million shares of its 3.5 million shares of ITC Holding Company (ITC) common stock. The Company tendered the shares as part of ITC's program to repurchase its own stock. The Company acquired this stock with the 1999 acquisition of National Enterprises Inc. (NEI) as it was part of NEI's non-water related investments. The sale resulted in proceeds of \$26.2 million, and a \$14 million after-tax gain which was reflected in second quarter 2002 results. This cash gain was offset by a non-cash loss of \$10.8 million, \$6.7 million after tax, that was also recorded during the second quarter when the Company determined that the value of two other securities acquired as part of the NEI acquisition had become permanently impaired. The Company continues to review all reasonable options regarding the remaining securities that include 1.3 million shares of Deutsche Telekom and 1.3

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million shares of ITC acquired as part of the NEI acquisition.

NOTE 8 -- Gain From Sale Of Operating Systems

Kelda Group plc and the Company jointly announced on August 30, 2001 that they had reached an agreement whereby Kelda's Aquarion Company would acquire the Company's New England operations. On April 25, 2002 the Company completed the divestiture and received its initial cash payment of \$120.5 million subject to the terms and conditions of the agreement. An \$18.6 million after-tax gain was reflected in second quarter 2002 results.

The utility operations acquired by Aquarion serve a total of 65,000 customers and had revenues of \$51 million in 2001. A finance subsidiary of the Company, which owned and leased certain assets to its affiliated operating company in Massachusetts, was also acquired by Aquarion as part of the transaction.

NOTE 9 -- Gain On Sale Of Land

Two of the Company's subsidiaries completed separate transactions for the sale of non-essential property that resulted in \$10 million in after-tax gains during the second quarter of 2002. These sales resulted in proceeds of approximately \$16 million.

NOTE 10 -- Revolving Credit Agreement and Long-Term Debt

On July 31, 2002 the Company's financing subsidiary, American Water Capital Corp. (AWCC) extended for one year its current 364-day \$500 million revolving credit agreement with a group of eleven domestic and international banks. The revolving credit agreement supports AWCC's commercial paper program.

Two subsidiaries issued \$39.9 million in tax-exempt long-term debt during the first nine months of 2002.

NOTE 11 -- Earnings Per Share

The average number of shares used to calculate diluted earnings per share includes 15,794 of potential common shares issuable in connection with the long-term incentive program for the three-month period ended September 30, 2001, and 254,529 and 169,624 potential common shares for employee stock options for the three-month periods ended September 30, 2002 and 2001, respectively.

The average number of shares used to calculate diluted earnings per share includes 10,963 of potential common shares issuable in connection with the long-term incentive program for the nine-month period ended September 30, 2001, and 281,740 and 143,850 potential common shares for employee stock options for the nine-month periods ended September 30, 2002 and 2001, respectively.

NOTE 12 -- Segment Information

The following table presents information about the Company's reportable segments.

Regulated
Utility
Services

Unregulated
Services

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Other
Items

Consolidated
(\$000's)

Three months ended September 30, 2002

Revenues from external
customers

\$ 421,065

\$ 62,392

\$ -

\$ 483,457

Intersegment revenues

\$ -

\$ 1,956

\$ (1,956)

\$ -

Net income

\$ 67,531

\$ (3,106)

\$ (9,237)

\$ 55,188

Merger expenses

(7)

-

(1,640)

(1,647)

Net income excluding unusual
items

\$ 67,538

\$ (3,106)

\$ (7,597)

\$ 56,835

Three months ended September 30, 2001

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Revenues from external
customers

\$ 385,256

\$ 9,700

\$ -

\$ 394,956

Intersegment revenues

\$ -

\$ 1,635

\$ (1,635)

\$ -

Net income

\$ 71,610

\$ (992)

\$ (14,841)

\$ 55,777

Merger expenses

-

-

(9,860)

(9,860)

Gain from sale of New
England operations

2,930

-

-

2,930

Gain on other investments

-

-

1,104

1,104

Net income excluding unusual
items

\$ 68,680

\$ (992)

\$ (6,085)

\$ 61,603

Nine months ended September 30, 2002

Revenues from external
customers

\$1,129,511

\$ 162,700

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\$	-
\$1,292,211	
Intersegment revenues	
\$	-
\$	5,612
\$	(5,612)
\$	-
Income before cumulative	
effect of change in	
accounting principle	
\$	141,411
\$	(3,658)
\$	(687)
\$	137,066
Net income	
\$	144,090
\$	(3,658)
\$	(687)
\$	139,745
Merger expenses	
	(115)
	-
	(3,265)
	(3,380)
Gain from sale of New	
England operations	
	-
	-
18,552	
18,552	
Gain on other investments	
	-
	-
13,979	
13,979	
Loss on write down of other	
investments	
	-
	-
(6,697)	
(6,697)	
Gain on sale of land	
	5,779
	4,184

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-
9,963
Cumulative effect of change
in accounting principle
2,679
-
-
2,679
Net income excluding unusual
items
\$ 135,747
\$ (7,842)
\$ (23,256)
\$ 104,649

Total assets
\$7,283,630
\$338,902
\$ (7,960)
\$7,614,572

Nine months ended September 30, 2001

Revenues from external
customers
\$1,045,312
\$ 29,949
\$ -
\$1,075,261
Intersegment revenues
\$ -
\$ 4,949
\$ (4,949)
\$ -
Income before cumulative
effect of change in
accounting principle

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\$ 156,795

\$ (2,357)

\$ (25,819)

\$ 128,619

Net income

\$ 156,795

\$ (2,357)

\$ (25,819)

\$ 128,619

Merger expenses

-

-

(9,860)

(9,860)

Gain from sale of New

England operations

2,930

-

-

2,930

Gain on other investments

-

-

3,158

3,158

Net income excluding unusual
items

\$ 153,865

\$ (2,357)

\$ (19,117)

\$ 132,391

Total assets

\$6,251,944

\$108,215

\$ (1,484)

\$6,358,675

The "other items" include corporate costs of American Water Works Company and intersegment eliminations. Total revenues are from United States of

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America (U.S.) operations except Unregulated Services Canadian revenues of \$14,711 and \$37,481 for the three and nine months ended September 30, 2002, respectively. Total assets are from U.S. operations except Unregulated Services Canadian assets of \$59,404 at September 30, 2002.

NOTE 13 -- New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 143 will have on its results of operations and financial position but does not expect them to be material.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. The effects of adoption of the provisions of SFAS 144 by the Company on January 1, 2002 did not have a material effect on its results of operations and financial position.

In April 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, "Recession of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145)." SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. The Company does not expect the adoption of the provisions of SFAS 145 to have a material effect on its results of operations and financial position.

In June 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting For Costs Associated with Exit or Disposal Activities," (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 146 will have on its

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results of operations and financial position but does not expect them to be material.

PART I - FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The operating results of the Azurix North American Corp. and Azurix Industrials Corp. (Azurix), and the water and wastewater assets of Citizens Communications Company (Citizens) acquisitions have been included in the consolidated statements of income and comprehensive income since the completion of the acquisitions on November 7, 2001 and January 15, 2002, respectively.

Consolidated revenues for the third quarter and first nine months of 2002 were higher than for the same periods in 2001 by 22% and 20%, respectively. These increases reflect the additional revenues from the Company's Azurix and Citizens acquisitions and revenues from rate increases, that were partially offset by the sale of the New England subsidiaries on April 25, 2002.

Approximately \$53 million and \$133 million of the overall revenue increase in the third quarter and first nine months in 2002 occurred in the unregulated services segment, reflecting the November 2001 acquisition of Azurix. The portion of the Company's overall revenue from its unregulated businesses grew from 2% during the third quarter of 2001 to 13% during the third quarter of 2002.

Regulated business revenues increased by 9% and 8% for the third quarter and first nine months of 2002 compared to the same periods in 2001. The primary reason for the increase in revenue generated by the regulated businesses during the third quarter of 2002 was the addition of \$38 million in revenue from the Citizens acquisition. The Citizens acquisition added revenues of \$94 million during the first nine months of 2002.

As of November 11, 2002, five utility subsidiaries received rate orders in 2002 that are expected to provide \$31 million in additional annual revenues. The largest of these rate increases was a \$24 million annual rate increase authorization in Pennsylvania that became effective in January of 2002. Three of the Company's subsidiaries have rate increase applications on file requesting additional annual revenues of \$52 million. The \$36 and \$15 million requests by the Company's Illinois and California subsidiaries account for the major portion of the pending requests. Included in the operations covered by the pending rate proceedings in Illinois and California are several of the operating systems that were acquired from Citizens. Rate increases to recover the capital costs related to new facilities necessary to ensure the delivery of high quality water had not been requested by Citizens for the past several years.

Total water sales in 2002 of 116 billion gallons for the third quarter and 282 billion gallons for the first nine months were 13% and 8% higher than for the same periods of 2001, respectively. Water sales were higher in 2002 due to the addition of almost 300,000 customers from the six-state Citizens acquisition and increased sales to residential and small business customers, notwithstanding the impact of drought restrictions, the sale of New England operations with 65,000 customers and declining sales to industrial customers.

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Most of the drought restrictions, which were in effect throughout New Jersey, portions of Pennsylvania and some of the Company's smaller east coast subsidiaries, have now been lifted.

Industrial water use continued on a decline that began in late 2001. Industrial sales for the third quarter and first nine months were down 1% and 6%, or 140 million gallons and 2 billion gallons, compared to the same periods in 2001. Lingered weak economic conditions continue to impact water sales to industrial customers. The Company sees no indication that in the near future water sales to industrial customers will strengthen or return to levels experienced in the past.

Operating expenses in the third quarter and the first nine months of 2002 were 36% and 33% higher than the same periods in 2001. The inclusion of the operating expenses related to the Azurix and Citizens operations during the third quarter and first nine months of 2002 significantly increased total expenses as these acquisitions were not part of the Company's consolidated financial information during the same periods last year. Included in these expenses are costs to integrate the businesses, particularly the Azurix operations into existing operations. These costs will continue throughout the year as the Company continues to transition systems and locations. The increase in third quarter operating expenses reflects an increase of almost \$3 million in pension expense above levels experienced during the third quarter of 2001. The Company resumed funding of its primary pension plan in the third quarter of 2002. The resumption of funding was in part due to the recent poor performance of the financial markets. Because pension expense in excess of amounts contributed to plans is deferred by the regulated subsidiaries in states where rate recovery is based on cash contributions, increased contributions result in increased operating expenses.

The increases in depreciation expense for the third quarter and first nine months were related to the Company's ongoing program of utility plant construction and the additional depreciation associated with the Azurix and Citizens transactions.

Interest expense rose by \$8 million in the third quarter and \$26 million in the first nine months of 2002 compared to the same periods in 2001. This increase is attributable to approximately \$1.2 billion of new debt associated with the Azurix and Citizens acquisitions.

Income taxes increased in the third quarter and first nine months of 2002 when compared to the third quarter and first nine months in 2001 reflecting increased earnings due to the sale of operating systems, investments and land. The Company's effective income tax rate for the nine months ended September 30 increased to 45.7% in 2002 from 41.1% in 2001, reflecting the relatively low tax basis in the stock of the New England subsidiaries that was sold in 2002 and \$3.4 million of expenses incurred in 2002 and \$9.9 million in 2001 in connection with the pending merger with RWE Aktiengesellschaft for which it is not probable that the Company will receive a tax deduction.

Net income to common stock was \$55.2 million for the third quarter of 2002 compared with \$55.6 million for the same period in 2001. Net income to common stock for the first nine months of 2002 was \$139.6 million compared with \$128.2 million for the same period in 2001.

Other comprehensive loss, net of tax, was \$0.4 million in the third quarter of 2002 compared to a \$13.3 million loss in the same period in 2001. Other comprehensive loss, net of tax, was \$1.6 million and \$19.8 million in the first nine months of 2002 and 2001, respectively. The

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Company's other comprehensive income or loss represents the after-tax unrealized gain or loss on passive investments in publicly traded securities and foreign currency translation adjustments.

Comprehensive income increased to \$54.8 million and \$138.0 million in the third quarter and first nine months of 2002, respectively, compared to comprehensive income of \$42.3 million and \$108.4 million in the same periods in 2001.

Diluted earnings per share of common stock in the third quarter of 2002 were \$.55 compared to \$.56 in the same period in 2001. The 2002 results included expenses amounting to two-cents per share related to the RWE merger. The 2001 results included a three-cent per share gain from the sale of the Company's New England operations, a one-cent gain from the sale of other investments in Deutsche Telekom stock, and expenses of ten-cents per share related to the RWE merger.

Diluted earnings per share of common stock in the first nine months of 2002 were \$1.39 compared to \$1.29 in the same period in 2001. The 2002 results include a three-cent per share positive impact of adopting the new financial accounting standards relating to business combinations, a 19-cent per share gain from the sale of the Company's New England operations, a 14-cent gain from the sale of other investments in ITC Holding Company stock, a seven-cent loss from the permanent write-down of other investments that were part of non-water investments included in the Company's 1999 acquisition of NEI, a ten-cent gain from sales of land and expenses of three-cents per share related to the RWE merger. The 2001 results included a three-cents per share gain from the sale of the Company's New England operations, a three-cent per share gain from the sale of other investments in Deutsche Telekom stock, and expenses of ten-cents per share related to the RWE merger.

Capital Resources and Liquidity

On January 14, 2002 the Company's financing subsidiary, American Water Capital Corp.(AWCC) closed on its second and final issue totaling \$900 million under its November 6, 2001 Note Purchase Agreement with RWE. These 4.92% notes were primarily used to fund the acquisition of the Citizens water and wastewater assets. On June 12, 2002 the Company and AWCC executed another Note Purchase Agreement with RWE for up to \$320 million in senior unsecured notes. The agreement allows AWCC to issue up to \$170 million in notes at an interest rate of 5.65% maturing on June 12, 2007 and \$150 million in notes at a floating interest rate based on LIBOR rates plus 20 basis points maturing on June 26, 2003. Closing occurred on \$40 million of the 5.65% senior notes on June 12, 2002. The remaining \$130 million of 5.65% notes closed on September 30, 2002. AWCC intends to issue the floating rate notes in the fourth quarter and will use the proceeds to repay other short-term debt.

On July 31, 2002 AWCC extended for one year its current 364-day \$500 million revolving credit agreement with a group of eleven domestic and international banks. The revolving credit agreement supports AWCC's commercial paper program.

Two subsidiaries issued \$39.9 million in tax-exempt long-term debt during the first nine months of 2002.

In the first nine months of 2002, the Company invested \$19.5 million in the common stock of three subsidiaries.

A condition of the merger agreement with RWE required the Company to redeem all of its issued and outstanding shares of 5% Cumulative

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Preference Stock and 5% Cumulative Preferred Stock prior to closing. That redemption was completed on March 1, 2002. The 365,158 shares of 5% Cumulative Preference Stock were redeemed for \$25.00 per share and the 101,777 shares of 5% Cumulative Preferred Stock were redeemed for \$25.25 per share, in each case without interest.

On April 2, 2002 the Company tendered approximately 2.2 million shares of its 3.5 million shares of ITC Holding Company (ITC) common stock. The Company tendered the shares as part of ITC's program to repurchase its own stock. The Company acquired this stock with the 1999 acquisition of National Enterprises Inc. (NEI) as it was part of NEI's non-water related investments. The sale resulted in proceeds of \$26.2 million, and a \$14 million after-tax gain which was reflected in second quarter 2002 results. This cash gain was offset by a non-cash loss of \$10.8 million, \$6.7 million after tax, that was also recorded during the second quarter when the Company determined that the value of two other securities acquired as part of the NEI acquisition had become permanently impaired. The Company continues to review all reasonable options regarding the remaining securities that include 1.3 million shares of Deutsche Telekom and 1.3 million shares of ITC acquired as part of the NEI acquisition.

During the first nine months of 2002, the market value of the assets in the Company's defined benefit pension plans declined by approximately \$51 million, or 14%, due to plan benefit payments and the poor performance of the financial markets in 2002. After a period of several years in which the Company was not allowed to make tax deductible contributions to its primary pension plan, funding resumed in the third quarter of 2002 at an annual level of approximately \$12.3 million. Continued poor performance of the financial markets may also significantly increase future pension expense and funding requirements beyond 2002. Management believes any additional contributions to the pension plans could be funded without any significant impact on liquidity. If the actual return on pension plan assets was zero for the balance of the year and the appropriate discount rate at year-end was 6.75%, the estimated accumulated benefit obligation at December 31 would exceed the market value of plan assets by approximately \$80 million. This would require an unfavorable after-tax adjustment of approximately \$15 million to other comprehensive income and shareholders' equity at December 31, 2002. Since September 30, equity values and the appropriate discount rate have increased. If these trends hold for the rest of 2002 the charge to other comprehensive income will be reduced.

Condemnation of Utility Systems

As previously reported, the cities of Pekin and Peoria in Illinois are seeking to acquire the utility assets of Illinois-American Water Company that are used to provide water service to their respective communities. Illinois-American is seeking to appeal an Illinois appellate court decision affirming a lower court decision that an 1889 franchise agreement gives the City of Peoria the right to purchase Illinois-American's assets there. The City of Pekin has filed a petition with the Illinois Commerce Commission requesting the Commission's determination that the City of Pekin may acquire Illinois-American's assets there by the use of eminent domain. Illinois-American is vigorously contesting these proposed takeovers.

In California, The Montara Sanitary District has filed a lawsuit seeking to condemn California-American's water system there, an action being vigorously contested by California-American.

In other locations local governments have evidenced an interest in acquiring some assets of the Company's subsidiaries, but have not taken

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any formal steps to acquire them by eminent domain. The City of Lexington, Kentucky has hired a financial adviser to prepare an initial valuation of Kentucky-American in contemplation of a possible acquisition of that Company's assets. The City Council of the City of Hopewell Virginia has authorized the City to acquire Virginia-American's Hopewell Division. Each of Kentucky-American and Virginia-American is opposing the attempt to acquire its assets in these places.

The Company does not consider any of the forgoing actions to be material individually, nor, given the Company's view that the probability is remote that all of them would result in a taking, does it believe that they are material in the aggregate.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 143 will have on its results of operations and financial position but does not expect them to be material.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. The effects of adoption of the provisions of SFAS 144 by the Company on January 1, 2002 did not have a material effect on its results of operations and financial position.

In April 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, "Recession of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145)." SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. The Company does not expect the adoption of the provisions of SFAS 145 to have a material effect on its results of operations and financial position.

In June 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting For Costs Associated with Exit or Disposal Activities," (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a

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liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 146 will have on its results of operations and financial position but does not expect them to be material.

Forward Looking Information

Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the Company's exposure to market risks described in the Company's Annual Report on Form 10-K for the Year Ended December 31, 2001.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures within 90 days of the filing date of this quarterly report, and they concluded that these controls and procedures are effective. There were no significant changes in internal controls or in other factors that could significantly affect these internal controls subsequent to the date of that evaluation.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

Exhibit Number	Description
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99 Additional Exhibits

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

B. Reports on Form 8-K

A current report on Form 8-K was filed on July 16, 2002 by the Company regarding the expiration of the waiting period under Hart-Scott-Rodino Antitrust Improvements Act of 1976 in respect of its notification filed regarding the proposed merger with and into a subsidiary of RWE/AG.

A current report on Form 8-K was filed on July 29, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

A current report on Form 8-K was filed on August 7, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

A current report on Form 8-K was filed on August 7, 2002 by the Company regarding each of the Principal Executive Officer and Principal Financial Officer's submitted sworn statements to the SEC pursuant to Securities and Exchange Commission Order No. 4-460.

A current report on Form 8-K was filed on September 9, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

A current report on Form 8-K was filed on September 30, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.
(Registrant)

Date November 14, 2002

\s\ Ellen C. Wolf

Vice President and Chief Financial Officer
(Authorized Officer)

Date November 14, 2002

\s\ Robert D. Sievers

Comptroller
(Chief Accounting Officer)

CERTIFICATIONS

I, J. James Barr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness

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of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

\s\ J. James Barr

President and CEO

CERTIFICATIONS

I, Ellen C. Wolf, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

\s\ Ellen C. Wolf

Vice President and Chief Financial Officer