

American Water Works Company, Inc.

Form S-1

August 29, 2007

Table of Contents

As filed with the Securities and Exchange Commission on August 28, 2007.

Registration No. 333-

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### Form S-1

REGISTRATION STATEMENT UNDER

THE SECURITIES ACT OF 1933

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**AMERICAN WATER WORKS COMPANY, INC.**

**AMERICAN WATER CAPITAL CORP.**

(Exact name of registrant as specified in its charter)

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Delaware	4941	51-0063696
Delaware (State or other jurisdiction of incorporation or organization)	522300 (Primary Standard Industrial Classification Code Number) 1025 Laurel Oak Road  Voorhees, NJ 08043  (856) 346-8200	22-3732448 (I.R.S. Employer Identification Number)

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

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**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)**

**George W. Patrick, Esq.**  
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**1025 Laurel Oak Road**  
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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. "

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**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of</b>	<b>Proposed Maximum Aggregate</b>	<b>Amount of</b>
<b>Securities to be Registered</b>	<b>Offering Price(1)(2)</b>	<b>Registration Fee</b>
Equity units	\$500,000,000	\$15,350.00

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American Water Capital Corp. Senior Notes (3)		
Common stock, par value \$1.00 per share (4)	\$500,000,000	\$15,350.00
Purchase Contracts (5)		
Support Agreement (6)		

- (1) Includes shares to be sold upon exercise of the underwriters' option to purchase additional corporate units. 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) The American Water Capital Corp. Senior Notes are offered as a component of the equity units for no additional consideration.
- (4) Shares of common stock of American Water Works, Inc. to be issued to the holders of equity units upon settlement of the purchase contracts, for a purchase price of \$50.00 per unit. The actual number of shares of common stock to be issued will not be determined until the date of settlement of the related equity units.
- (5) The Purchase Contracts are offered as a component of the equity units for no additional consideration.
- (6) The American Water Works Company, Inc. Support Agreement is offered as a component of the equity security units for no additional consideration.

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**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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**Table of Contents**

**The information in this preliminary prospectus is not complete and may be changed. We 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 are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.**

**Subject to Completion. Dated August 28, 2007.**

*(Preliminary Prospectus)*

**Equity Units**

**(Initially Consisting of Corporate Units)**

**American Water Works Company, Inc.**

**Equity Units**

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This is an offering of equity units of American Water Works Company, Inc., referred to as American Water. Each equity unit will have a stated amount of \$50 and will consist of a purchase contract issued by us and, initially, a 1/20, or 5%, undivided beneficial ownership interest in \$1,000 principal amount of senior notes due 2012 issued by our subsidiary American Water Capital Corp., referred to as AWCC, which we refer to as a corporate unit.

The purchase contract will obligate you to purchase from American Water, no later than \_\_\_\_\_, 2010, for a price of \$50 in cash, the following number of shares of American Water's common stock, subject to anti-dilution adjustments:

if the average closing price of American Water's common stock over the 20-trading day period ending on the third trading day prior to \_\_\_\_\_, 2010 equals or exceeds \$ \_\_\_\_\_, \_\_\_\_\_ shares of American Water's common stock;

if the average closing price of American Water's common stock over the same period is less than \$ \_\_\_\_\_ but greater than \$ \_\_\_\_\_, a number of shares of American Water's common stock having a value, based on such average closing price, equal to \$50; and

if the average closing price of American Water's common stock over the same period is less than or equal to \$ \_\_\_\_\_, \_\_\_\_\_ shares of American Water's common stock.

American Water will also pay you quarterly contract adjustment payments at a rate of \_\_\_\_\_ % per year of the stated amount of \$50 per equity unit, or \$ \_\_\_\_\_ per year, subject to American Water's right to defer contract adjustment payments, as described in this prospectus.

The senior notes will initially bear interest at a rate of \_\_\_\_\_ % per year, payable, initially, quarterly. The senior notes will be remarketed as described in this prospectus. Following a successful remarketing, the interest rate on the senior notes will be reset and interest will become payable semi-annually.

The corporate units will initially be sold by the underwriters in minimum increments of 20 units.

Concurrently with this offering, RWE Aktiengesellschaft, through a subsidiary, is offering by separate prospectus \_\_\_\_\_ shares of American Water's common stock, plus up to an additional \_\_\_\_\_ shares of common stock if the underwriters exercise their option to purchase additional shares. This offering of equity units is contingent upon the consummation of the concurrent offering of American Water's common stock, referred to as the concurrent initial public offering.

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American Water intends to apply to list the corporate units on the New York Stock Exchange under the symbol . American Water intends to apply to have its common stock listed on the New York Stock Exchange under the symbol AWK.

*Investing in our equity units involves risks. See Risk Factors on page 24 to read about factors you should consider before buying equity units.*

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**Neither the Securities and Exchange Commission nor 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.**

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	Per unit	Total
Public offering price	\$	\$
Underwriting discounts	\$	\$
Proceeds, before expenses, to American Water	\$	\$

The underwriters may also purchase up to an additional \_\_\_\_\_ corporate units from us at the public offering price, less the underwriting discount, within 30 days of the date of this prospectus.

The underwriters expect to deliver the equity units against payment in New York, New York on \_\_\_\_\_ .

**Goldman, Sachs & Co.**

**Citi**

**Merrill Lynch & Co.**

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Prospectus dated \_\_\_\_\_, 2007.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	24
<u>Forward-Looking Statements</u>	45
<u>Industry and Market Data</u>	46
<u>Use of Proceeds</u>	47
<u>Common Stock Offering</u>	48
<u>Dividend Policy</u>	48
<u>Capitalization</u>	49
<u>Ratio of Earnings to Combined Fixed Charges and Preferred Dividends</u>	50
<u>Unaudited Pro Forma Condensed Consolidated Financial Information</u>	51
<u>Selected Historical Consolidated Financial Data</u>	57
<u>Management's Discussion and Analysis of Financial Conditions and Results of Operations</u>	59
<u>Business</u>	92
<u>Management</u>	119
<u>Certain Relationships and Related Transactions</u>	153
<u>American Water Capital Corp.</u>	155
<u>Principal Stockholders</u>	156
<u>Description of Capital Stock</u>	158
<u>Description of Certain Indebtedness</u>	161
<u>Description of Equity Units</u>	165
<u>Description of Purchase Contracts</u>	171
<u>Certain Provisions of The Purchase Contract and Pledge Agreement</u>	187
<u>Description of The Senior Notes</u>	191
<u>Accounting Treatment</u>	204
<u>Shares Eligible for Future Sale</u>	205
<u>United States Federal Income Tax Consequences</u>	207
<u>Underwriting</u>	217
<u>Validity of the Equity Units</u>	220
<u>Experts</u>	221
<u>Where You Can Find More Information</u>	222
<u>Glossary</u>	G-1
<u>Index to Consolidated Financial Statements</u>	F-1

As used in this prospectus, and unless otherwise indicated or unless the context otherwise requires:

American Water, our, us, we or the Company means American Water Works Company, Inc. and its subsidiaries after giving effect to the Restructuring, as defined below;

AWCC means American Water Capital Corp., our finance subsidiary, which is a wholly owned subsidiary of American Water Works Company, Inc.;

customer means a connection to our water or wastewater networks; as in the case of apartment complexes, businesses and many homes, multiple individuals may be served by a single connection;

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population means the estimated number of people served by our water and wastewater services; see Industry and Market Data for the methodology we employ to estimate population served;

RWE means 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;

state PUC means a state commission or other entity engaged in economic regulation of public utilities; and

(i)

**Table of Contents**

Thames US Holdings means Thames Water Aqua US Holdings, Inc., a Delaware corporation and an indirect wholly owned subsidiary of RWE, and not any of its subsidiaries. Thames US Holdings will be merged with and into American Water in the merger described herein, with American Water as the surviving entity.

**You should rely only on the information contained in this prospectus or any free writing prospectus prepared by or on behalf of us. We have not authorized anyone to provide you with information that is different. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.**

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.

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 of control is a fact-specific inquiry that varies by state. For example, in several 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 American Water's common stock in this offering of equity units, through the concurrent initial public offering of American Water's common stock or in any other purchase of American Water's common stock in a quantity sufficient to trigger a change of control under state law would need the prior approval of the applicable state PUC.

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**Dealer Prospectus Delivery Obligation**

**Through and including , 2007 (the 25th day after the date of this prospectus), all dealers that effect transactions in these securities, 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.**



**Table of Contents**

**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 above and under Glossary.*

**Our Company**

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 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.

Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers. Our subsidiaries that provide these services are generally subject to economic regulation by state Public Utility Commissions, referred to as 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. We report the results of this business in our Regulated Businesses segment. Our Regulated Businesses currently provide services in 20 states within the United States and in 2006 served approximately 3.3 million customers, or connections to our water and wastewater networks. 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. We report the results of this business in our Non-Regulated Businesses segment. 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 85% of all United States community water systems and approximately 95% 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

## **Table of Contents**

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.

### **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. With operations in 32 states and Ontario, Canada, we serve a population of approximately 16.2 million people, which we estimate is approximately five times the population served by the next largest investor-owned water and wastewater 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.*** As the largest investor-owned water and wastewater utility company in the United States, our scale and long-standing history with suppliers provide us with a competitive advantage in procuring goods and services reliably and economically, which enables us to provide high quality, cost-effective service to our customers and allows us to economically employ industry experts to serve all our systems.

***Active community involvement supports customer satisfaction.*** We establish an active presence in the local communities we serve, supported by strong, ongoing community relations and corporate responsibility. 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.

***Barriers to entry.*** The requirement to hold or to obtain government authorizations, along with high capital costs, generally inhibit competitive entry into our markets, including by municipal or government-owned utilities, which must either construct new systems or convert our assets to public ownership in order to compete directly with us in our authorized areas. Both of these factors provide a framework that allows us to operate our Regulated Businesses on a predictable and consistent basis.

***Economic regulation.*** Economic regulation in the water and wastewater utility industry exists as a substitute for competition. The primary regulatory model used by state PUCs involves a determination of an applicable rate base (consisting of allowed investments made in infrastructure), the recovery of prudently incurred operating expenses and an opportunity to earn an appropriate rate of return of and on invested capital. This model allows us to project our returns of and on investment and recovery of expenses and promotes predictability in financial planning and long-term performance of our Regulated Businesses.

## **Table of Contents**

*Residential customer base.* Residential customers accounted for approximately 91% of the total customers served by our Regulated Businesses and approximately 61% of total operating revenue for our Regulated Businesses in 2006. Residential customers represent a stable customer platform, generating consistent operating results for our company over time and across our geographic service areas.

*Experience in securing appropriate rates of return and promoting constructive regulatory frameworks.* We seek appropriate rates of return of and on investments and recovery of prudently incurred operating expenses from state PUCs in the form of rate increases, referred 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.

A number of states in which our Regulated Businesses operate have adopted efficient rate policies, including some form of single tariff pricing, forward-looking test years and infrastructure surcharges. These constructive regulatory mechanisms encourage us to maintain a steady capital expenditure program to repair and improve water and wastewater systems as needed by reducing the regulatory lag on the recovery of prudent expenditures.

*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. We have successfully developed expertise in managing large capital investment projects and programs as an owner-operator and have an established track record of investing to upgrade, replace and add new pipes, treatment and pumping facilities and other water system infrastructure. In addition, we have experience designing, building and operating water treatment plants, which treat water from major rivers as well as lakes, reservoirs and groundwater sources within the United States.

*Fragmented industry provides consolidation opportunities.* With approximately 53,000 community water systems and roughly 16,000 community wastewater systems in the United States, the water and wastewater industry is significantly more fragmented than the other major utility industries. With the presence of our Regulated Businesses in 20 states, we have a large platform on which to grow both organically and through consolidation of this fragmented market.

*Opportunities for non-regulated growth.* Our expertise and geographic diversity increases our ability to make opportunistic investments in non-regulated businesses that are complementary to our Regulated Businesses. Our national footprint and public/private partnership experience, including operation and maintenance contracts, referred to as O&M contracts, position us to participate in existing and emerging non-regulated water businesses. These include contracting for the supply and treatment of water and the collection and treatment of wastewater with the United States military.

*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

## **Table of Contents**

held senior management positions at publicly traded companies. Our 12 state presidents have an average of 19 years of experience in the utilities industry.

***Industry leader in water quality, testing and research.*** As the largest investor-owned United States water and wastewater utility company, 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 through the EPA Unregulated Contaminant Monitoring program. 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. 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, referred to as the RWE Divestiture. In anticipation of the RWE Divestiture, effective December 31, 2006, the businesses of Thames Water Holdings Incorporated and its subsidiaries were contributed by Thames US Holdings to American Water, referred to as the Contribution. In addition, prior to the consummation of the concurrent initial public offering, Thames US Holdings will be merged with and into American Water with American Water being the surviving entity, referred to as the Merger. The Contribution and the Merger are referred to collectively in this prospectus as the Restructuring.

Concurrently with this offering, RWE is offering by separate prospectus \_\_\_\_\_ shares of American Water's common stock, plus up to an additional \_\_\_\_\_ shares of common stock if the underwriters exercise their option to purchase additional shares. Prior to this offering we will effect a \_\_\_\_\_-for-\_\_\_\_\_ stock split.

In addition, prior to the consummation of this offering, we intend to use the proceeds from the issuance of approximately \$1,500.0 million aggregate principal amount of senior notes, referred to as the new senior notes, and approximately \$450.0 million of commercial paper, together with approximately \$20.0 million of cash on hand, to fund the early redemption of \$1,750.0 million of preferred stock held by RWE and the repayment of \$222.0 million aggregate principal amount of 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. We intend to use a portion of the proceeds from this offering of equity units to fund the repayment of approximately \$450.0 million of commercial paper, with the balance of the net cash proceeds of approximately \$34.5 million used for general corporate purposes. These transactions,



**Table of Contents**

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 Restructuring, the Refinancing, the Merger and the -for- split of common stock referred to above are collectively referred to in this prospectus as the Transactions.

**Organizational Structure**

The following chart sets forth our current organizational structure:

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.

**Table of Contents**

**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](http://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.**

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**Table of Contents**

**THE OFFERING**

*Unless the context otherwise requires, for purposes of this section entitled The Offering, the terms American Water, our, us or we refer to American Water Works Company, Inc. and not to any of its subsidiaries.*

**What are equity units?**

Equity units may be either corporate units or treasury units as described below. The equity units offered hereby will initially consist of corporate units, each with a stated amount of \$50. You can create treasury units from the corporate units in the manner described below under How Can I Create Treasury Units From Corporate Units?

**What are the components of a corporate unit?**

Each corporate unit consists of a purchase contract and, initially, a 1/20, or 5%, undivided beneficial ownership interest in \$1,000 principal amount of AWCC's senior notes due 2012, which we call the applicable ownership interest in senior notes. The senior notes will be issued in minimum denominations of \$1,000 and integral multiples thereof, except in certain limited circumstances. The applicable ownership interest in senior notes underlying a corporate unit is owned by you, but it initially will be pledged to us to secure your obligation under the related purchase contract. If the senior notes are successfully remarketed on or prior to the ninth business day immediately preceding \_\_\_\_\_, 2010, or if a tax event redemption occurs prior to \_\_\_\_\_, 2010, in each case as described in this prospectus, the senior notes underlying the corporate units will be replaced by the treasury portfolio described below under What is the treasury portfolio? and the applicable ownership interest in the treasury portfolio will then be pledged to American Water through the collateral agent to secure your obligation under the related purchase contract.

**What is a purchase contract?**

Each purchase contract underlying an equity unit obligates the holder of the purchase contract to purchase, and obligates American Water to sell, on \_\_\_\_\_, 2010, which we refer to as the purchase contract settlement date, for \$50 in cash, a number of newly issued shares of American Water common stock equal to the settlement rate. The settlement rate will be calculated, subject to adjustment under the circumstances set forth in Description of the Purchase Contracts Anti-Dilution Adjustments, as follows:

if the applicable market value of American Water common stock is equal to or greater than \$ \_\_\_\_\_, which we refer to as the threshold appreciation price, the settlement rate will be \_\_\_\_\_ shares of American Water common stock;

if the applicable market value of American Water's common stock is less than the threshold appreciation price but greater than \$ \_\_\_\_\_, which we refer to as the reference price, the settlement rate will be a number of shares of American Water's common stock equal to \$50 divided by the applicable market value; and

if the applicable market value of American Water common stock is less than or equal to the reference price, the settlement rate will be \_\_\_\_\_ shares of American Water common stock.

Applicable market value means the average of the closing price per share of American Water common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the purchase contract settlement date, subject to anti-dilution adjustments. The reference price represents the initial public offering price of American Water's common stock in the concurrent initial public offering. The threshold appreciation price represents a \_\_\_\_\_ % appreciation over the reference price.



## **Table of Contents**

### **Can I settle the purchase contract early?**

You can settle a purchase contract for cash prior to the purchase contract settlement date, subject to certain exceptions described under Description of the Purchase Contracts Early Settlement. If a purchase contract is settled early, the number of shares of American Water common stock to be issued per purchase contract will be the stated amount of \$50 divided by the threshold appreciation price, initially shares. In addition, if American Water is involved in a cash merger, which we define as any acquisition (whether by means of a liquidation, share exchange, tender offer, consolidation, recapitalization, reclassification, merger of us or any subsidiaries or other transfer of the consolidation assets of us and subsidiaries) or a series of related transactions or events in which at least 51% of our common stock is exchanged for, converted into or constitutes solely the right to receive cash, securities or other property, more than 10% of which consists of cash, securities or other property that are not, or upon issuance will not be, common equity interests listed for trading or quotation on the New York Stock Exchange or quoted on the Nasdaq Global Market or Nasdaq Global Select Market, you will have the right to accelerate and settle the purchase contract early at the settlement rate in effect immediately prior to the closing of that merger plus, subject to certain limitations, a make-whole amount. See Description of Purchase Contracts Early Settlement Upon Cash Merger. Your early settlement right is subject to the condition that, if required under the U.S. federal securities laws, we have a registration statement under the Securities Act of 1933 in effect covering the shares of common stock and other securities, if any, deliverable upon settlement of a purchase contract. We have agreed that, if required by U.S. federal securities laws, we will use reasonable efforts to have a registration statement in effect covering those shares of common stock and other securities, if any, to be delivered in respect of the purchase contracts being settled.

### **What is a treasury unit?**

A treasury unit is a unit created from a corporate unit and consists of a purchase contract and a 1/20, or 5%, undivided beneficial interest in a zero-coupon U.S. treasury security with a principal amount of \$1,000 that matures on , 2010 (CUSIP No. ), which we refer to as a treasury security. The ownership interest in the treasury security that is a component of a treasury unit will be owned by you, but will be pledged to American Water through the collateral agent to secure your obligation under the related purchase contract.

### **How can I create treasury units from corporate units?**

Subject to the last sentence of this paragraph, unless the treasury portfolio has replaced the senior notes underlying the corporate units, each holder of corporate units will have the right, at any time on or prior to the seventh business day immediately preceding the purchase contract settlement date, to substitute for the underlying senior notes held by the collateral agent treasury securities in a total principal amount equal to the aggregate principal amount of the senior notes underlying the corporate units with respect to which substitution is being made. Because treasury securities and senior notes are issued in integral multiples of \$1,000, holders of corporate units may make this substitution only in integral multiples of 20 corporate units. The ability of holders of corporate units to create treasury units will be subject to the limitation that holders may not create treasury units during any period commencing on and including the business day preceding any three-day remarketing period as described below under What is remarketing? and ending on and including, in the case of a successful remarketing during that three-day remarketing period, the reset effective date, or, if none of the remarketings during that three-day remarketing period is successful, the business day following the last remarketing date during that three-day remarketing period.

If the treasury portfolio has replaced the senior notes underlying the corporate units as a result of either a successful remarketing of the senior notes or a tax event redemption, holders of corporate units will have the right, at any time on or prior to the second business day immediately preceding the purchase contract settlement date, to substitute treasury securities for the applicable ownership interests in the treasury portfolio underlying

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## **Table of Contents**

the corporate units held by the collateral agent, but holders of corporate units can only make this substitution in integral multiples of corporate units (or such other number of corporate units as may be determined by the remarketing agent upon a successful remarketing of senior notes if the reset effective date is not a regular quarterly interest payment date).

Each of these substitutions will create treasury units, and the senior notes underlying the applicable ownership interests in senior notes or applicable ownership interests in the treasury portfolio will be released to the holder and be tradable separately from the treasury units.

### **How can I recreate corporate units from treasury units?**

Subject to the last sentence of this paragraph, unless the treasury portfolio has replaced the senior notes underlying the corporate units, each holder of treasury units will have the right, at any time on or prior to the seventh business day immediately preceding the purchase contract settlement date, to substitute for the related treasury securities held by the collateral agent senior notes having a principal amount equal to the aggregate principal amount at stated maturity of the treasury securities for which substitution is being made. Because treasury securities and senior notes are issued in integral multiples of \$1,000, holders of treasury units may make these substitutions only in integral multiples of 20 treasury units. The ability of holders of treasury units to recreate corporate units will be subject to the limitation that holders may not recreate corporate units during any period commencing on and including the business day preceding any three-day remarketing period and ending on and including, in the case of a successful remarketing during that three-day remarketing period, the reset effective date, or, if none of the remarketings during that three-day remarketing period is successful, the business day following the last remarketing date during that three-day remarketing period.

If the treasury portfolio has replaced the senior notes underlying the corporate units as a result of either a successful remarketing of the senior notes or a tax event redemption, holders of treasury units will have the right, at any time on or prior to the second business day immediately preceding the purchase contract settlement date, to substitute the applicable ownership interests in the treasury portfolio for the treasury securities underlying the treasury units, but holders of treasury units can only make this substitution in integral multiples of treasury units (or such other number of treasury units as may be determined by the remarketing agent upon a successful remarketing of senior notes if the reset effective date is not a regular quarterly interest payment date). Each of these substitutions will recreate corporate units and the applicable treasury securities will be released to the holder and be separately tradable from the corporate units.

### **What payments am I entitled to as a holder of corporate units?**

Holders of corporate units will be entitled to receive quarterly cash distributions consisting of their pro rata share of interest payments on the senior notes payable by AWCC, equivalent to the rate of % per year on the applicable ownership interests in senior notes (or distributions on the applicable ownership interests in the treasury portfolio if the senior notes have been replaced by the treasury portfolio), and contract adjustment payments payable by American Water at the rate of % per year on the stated amount of \$50 per corporate unit, subject to American Water's right to defer the contract adjustment payments as described below.

If interest on the senior notes is reset on a reset effective date that is not a scheduled interest payment date, the collateral agent will receive on behalf of holders of corporate units a payment from AWCC on such reset effective date of accrued and unpaid interest on the senior notes from the most recent quarterly interest payment date to, but excluding, such reset effective date. On the quarterly payment date next following the reset effective date, corporate unit holders will receive a regular quarterly cash distribution comprised of their pro rata portion of that interest payment, the portion of their applicable ownership interest in the remarketing treasury portfolio that matures prior to that quarterly payment date and the contract adjustment payment payable on that date.

## **Table of Contents**

### **What payments will I be entitled to if I convert my corporate units to treasury units?**

Holders of treasury units will be entitled to receive quarterly contract adjustment payments payable by American Water at the rate of \_\_\_\_\_ % per year on the stated amount of \$50 per treasury unit, subject to our right to defer the contract adjustment payments as described below. There will be no distributions in respect of the treasury securities that are a component of the treasury units but the holders of the treasury units will continue to receive the scheduled quarterly interest payments on the senior notes that were released to them when they created the treasury units as long as they continue to hold the senior notes.

### **Does American Water have the option to defer current payments?**

American Water has the right to defer the payment of contract adjustment payments until no later than the purchase contract settlement date; provided, however, that in an early settlement upon a cash merger or any other early settlement of the purchase contracts, American Water will pay deferred contract adjustment payments through the cash merger settlement date or the most recent quarterly payment date, as applicable. Any deferred contract adjustment payments would accrue additional contract adjustment payments at the rate of \_\_\_\_\_ % per year until paid, compounded quarterly, to, but excluding, the earlier of the purchase contract settlement date and the date of any earlier settlement of the purchase contract. AWCC is not entitled to defer payments of interest on the senior notes.

In the event that American Water exercises its option to defer the payment of contract adjustment payments, then until the deferred contract adjustment payments have been paid, American Water will not, with certain exceptions, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of its capital stock.

### **What are the payment dates for the corporate units?**

The payments described above in respect of the corporate units will be payable quarterly in arrears on February 1, May 1, August 1 and November 1, of each year, commencing on \_\_\_\_\_, subject to, in the case of that portion of the current payment attributable to contract adjustment payments, the deferral provisions described in this prospectus.

### **What is remarketing?**

We may, at our option and in our sole discretion, elect to remarket the aggregate principal amount of senior notes underlying the aggregate applicable ownership interests in senior notes held by corporate unit holders as part of a corporate unit on any remarketing date occurring during the period for early remarketing beginning on the third business day preceding \_\_\_\_\_, 2010 and ending on the ninth business day preceding \_\_\_\_\_, 2010, unless the senior notes have been previously redeemed in connection with a tax event redemption or have been previously successfully remarketed. Any remarketing during the period for early remarketing will occur during one or more three-day remarketing periods that consist of three sequential possible remarketing dates selected by us and will include the senior notes underlying the corporate units and other senior notes of holders that have elected to include those senior notes in the remarketing.

On each remarketing date occurring during the period for early remarketing, the remarketing agent will use its reasonable efforts to obtain a price for the senior notes remarketed equal to approximately 100% of the purchase price for the remarketing treasury portfolio plus a fee to be determined between us and the remarketing agent, which we refer to as the remarketing fee. A portion of the proceeds from the remarketing equal to the remarketing treasury portfolio purchase price will be applied to purchase the remarketing treasury portfolio. The remarketing treasury portfolio will be substituted for the senior notes underlying the corporate units and will be pledged to us through the collateral agent to secure the corporate unit holders' obligations to purchase American Water's common stock under the purchase contracts. When paid at maturity, an amount of the remarketing

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**Table of Contents**

treasury portfolio equal to the principal amount of the substituted senior notes will automatically be applied to satisfy the corporate unit holders obligations to purchase American Water's common stock under the purchase contracts on \_\_\_\_\_, 2010.

In addition, the remarketing agent may deduct the remarketing fee from any amount of the proceeds from the remarketing of the senior notes in excess of the remarketing treasury portfolio purchase price; if such excess is less than the remarketing fee, then we shall be liable for the remainder of that remarketing fee. The remarketing agent will then remit the remaining portion of the proceeds from the remarketing of the senior notes, if any, for the benefit of the holders.

If a remarketing attempt described above is unsuccessful on the first remarketing date of a three-day remarketing period, subsequent remarketings as described above will be attempted on each of the two following remarketing dates in that three-day remarketing period until a successful remarketing occurs. If none of the three remarketings occurring during a three-day remarketing period results in a successful remarketing because the remarketing agent cannot obtain a price for the senior notes on any such date equal to at least 100% of the remarketing treasury portfolio purchase price or a condition precedent to the remarketing has not been satisfied, the interest rate on the senior notes will not be reset, the applicable ownership interests in senior notes will continue to be a component of corporate units and subsequent remarketings may, subject to the next paragraph, be attempted during one or more subsequent three-day remarketing periods as described above.

Unless the senior notes have been successfully remarketed on or prior to the ninth business day immediately preceding \_\_\_\_\_, 2010, the senior notes that underlie corporate units whose holders have failed to notify the purchase contract agent on or prior to the seventh business day immediately preceding \_\_\_\_\_, 2010 of their intention to pay cash in order to satisfy their obligations under the related purchase contracts, will, unless a tax event redemption has occurred or will occur prior to \_\_\_\_\_, 2010, be remarketed during a three-day remarketing period beginning on and including the fifth business day, and ending on and including the third business day, immediately preceding \_\_\_\_\_, 2010. This three-day remarketing period is referred to as the "final three-day remarketing period" and we refer to the third business day immediately preceding \_\_\_\_\_, 2010 as the "final remarketing date." In this remarketing, the remarketing agent will use its reasonable efforts to obtain a price for the senior notes equal to approximately 100% of the aggregate principal amount of the senior notes being remarketed plus the remarketing fee. A portion of the proceeds from the remarketing equal to the aggregate principal amount of the senior notes being remarketed will automatically be applied to satisfy in full the corporate unit holders' obligations to purchase American Water's common stock under the related purchase contracts on the purchase contract settlement date.

If a remarketing during the final three-day remarketing period is successful, the remarketing agent may deduct the remarketing fee from any amount of the proceeds in excess of the aggregate principal amount of the remarketed senior notes; if such excess is less than the remarketing fee, then we shall be liable for the remainder of the remarketing fee. The remarketing agent will then remit any remaining portion of the proceeds for the benefit of the holders. In connection with a successful remarketing, interest on the senior notes will be payable semiannually at the reset rate and the maturity date of the senior notes may be extended. The reset rate on the senior notes and the date, if any, to which the maturity date of the senior notes is extended will be determined on the date that the remarketing agent is able to successfully remarket the senior notes. The reset rate, modified interest payment dates and extension, if any, of the maturity date will become effective, if the remarketing is successful, on the reset effective date. The reset effective date will be, in the case of a successful remarketing during the period for early remarketing, the third business day immediately following the date of the successful remarketing and, in the case of a successful remarketing during the final three-day remarketing period, the purchase contract settlement date.

If a remarketing attempt described above is unsuccessful on the first remarketing date of the final three-day remarketing period, subsequent remarketings will be attempted as described above on each of the two following remarketing dates in the final three-day remarketing period until a successful remarketing occurs.

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**Table of Contents**

**What happens if the senior notes are not successfully remarketed?**

If the senior notes have not been successfully remarketed on or prior to the final remarketing date, the interest rate on the senior notes will not be reset and holders of all senior notes will have the right to put their senior notes to us on the purchase contract settlement date at a put price equal to \$1,000 per senior note (\$50 per applicable ownership interest) plus accrued and unpaid interest. A holder of a senior note underlying a corporate unit will be deemed to have automatically exercised this put right unless, prior to 11:00 a.m., New York City time, on the second business day immediately preceding the purchase contract settlement date, such holder provides a written notice of an intention to settle the related purchase contract with separate cash and on or prior to the business day immediately preceding the purchase contract settlement date delivers to the collateral agent the purchase price in cash. Unless a corporate unit holder has settled the related purchase contracts with separate cash on or prior to the purchase contract settlement date, such holder will be deemed to have elected to apply a portion of the proceeds of the put price equal to the principal amount of the senior notes underlying such corporate units against such holder's obligations to American Water under the related purchase contracts, thereby satisfying such obligations in full, and American Water will deliver to such holder its common stock pursuant to the related purchase contracts.

**Do I have to participate in the remarketing?**

You may elect not to participate in any remarketing and to retain the senior notes underlying the applicable ownership interests in senior notes comprising part of your corporate units by (1) creating treasury units at any time prior to the business day preceding any three-day remarketing period or (2) if there has not been a successful remarketing prior to the final three-day remarketing period, notifying the purchase contract agent of your intention to pay cash to satisfy your obligation under the related purchase contracts on or prior to the seventh business day before the purchase contract settlement date and delivering the cash payment required under the purchase contracts to the collateral agent on or prior to the sixth business day before the purchase contract settlement date. Following a successful remarketing prior to the final three-day remarketing period, holders of treasury units can recreate corporate units at any time prior to the second business day immediately preceding the purchase contract settlement date, as described under [How can I recreate corporate units from treasury units?](#)

The interest rate, maturity date and scheduled interest payment dates of senior notes that are held by holders that do not participate in a remarketing will still be reset on the reset effective date in accordance with any reset of the interest rate, extension of the maturity date or modification of the scheduled interest payment dates of the senior notes in connection with a successful remarketing.

**What is the treasury portfolio?**

If there is a successful remarketing on or prior to the ninth business day preceding the purchase contract settlement date or if a tax event redemption described under [Description of the Senior Notes Optional Redemption Tax Event](#) occurs prior to the purchase contract settlement date, the senior notes will be replaced by the treasury portfolio. The treasury portfolio is a portfolio of U.S. treasury securities consisting of:

(1) for a remarketing treasury portfolio,

interest or principal strips of U.S. Treasury securities that mature on or prior to \_\_\_\_\_, 2010 in an aggregate amount equal to the principal amount of the senior notes underlying the corporate units; and

interest or principal strips of U.S. Treasury securities that mature on or prior to \_\_\_\_\_, 2010 in an aggregate amount equal to the aggregate interest payment that would be due on \_\_\_\_\_, 2010, on the principal amount of the senior notes that would have been components of the corporate units assuming no remarketing and no reset of the interest rate on the senior notes and assuming that interest on the senior notes accrued from the later of the reset effective date and \_\_\_\_\_, 201