AMERICAN WATER WORKS CO INC
Form 10-Q
November 14, 2001

CONFORMED COPY

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, 2001

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 incorporation or organization)	(IRS Employer Identification No.)

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, 2001, the number of shares of common stock, $1.25 par value, outstanding was 99,983,686 shares.

PART I FINANCIAL INFORMATION

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, 2001	Three Months Ended September 30, 2000
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	$394,956	$364,125
Operating expenses		
Operation and maintenance	166,890	154,400
Depreciation and amortization	46,819	41,648
General taxes	33,049	31,942
Total operating expenses	246,758	227,990
Operating income	148,198	136,135
Other income (deductions)		
Interest	(47,512)	(48,556)
Allowance for other funds used during construction	1,098	1,241
Allowance for borrowed funds used during construction	968	931
Amortization of debt expense	(694)	(691)
Preferred dividends of subsidiaries	(750)	(789)
RWE/AG acquisition expense	(9,860)	-
Gain from sale of operating system	4,820	-
Other, net	1,481	(4,052)
Total other income (deductions)	(50,449)	(51,916)
Income before income taxes	97,749	84,219
Provision for income taxes	41,972	33,488
Net income	55,777	50,731
Dividends on preferred stocks	146	996
Net income to common stock	55,631	49,735
Other comprehensive loss, net of tax		
Unrealized loss on securities	(12,181)	(23,856)
Reclassification adjustment for gain included in net income	(1,104)	-
Other comprehensive loss, net of tax	(13,285)	(23,856)
Comprehensive income	$ 42,346	$ 25,879

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000
Average shares of basic common stock outstanding	99,723	98,139
Basic and diluted earnings per common share on average shares outstanding	$ 0.56	$ 0.51

CONSOLIDATED RETAINED EARNINGS

	2001	2000
Balance at July 1	$1,096,271	$1,026,417
Add - net income	55,777	50,731
Gain (loss) on treasury stock	57	(15)
	1,152,105	1,077,133
Deduct - dividends paid		
Preferred stock	32	882
Preference stock	114	114
Common stock - $.235 per share in 2001; $.225 per share in 2000	23,409	22,062
	23,555	23,058
Balance at September 30	$1,128,550	$1,054,075

The accompanying information and 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, 2001	Nine Months Ended September 30, 2000
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	$1,075,261	$1,018,293
Operating expenses		
Operation and maintenance	478,189	453,028
Depreciation and amortization	136,248	122,061
General taxes	98,825	96,610
Total operating expenses	713,262	671,699
Operating income	361,999	346,594
Other income(deductions)		
Interest	(144,653)	(143,030)
Allowance for other funds used during construction	3,364	5,747
Allowance for borrowed funds used during construction	3,035	4,210
Amortization of debt expense	(2,082)	(2,081)
Preferred dividends of subsidiaries	(2,275)	(2,382)
RWE/AG acquisition expense	(9,860)	-
Gain from sale of operating system	4,820	-
Other, net	3,876	(5,126)
Total other income (deductions)	(143,775)	(142,662)
Income before income taxes	218,224	203,932
Provision for income taxes	89,605	80,979
Net income	128,619	122,953
Dividends on preferred stocks	438	2,988
Net income to common stock	128,181	119,965
Other comprehensive loss, net of tax		
Unrealized loss on securities	(16,636)	(47,062)
Reclassification adjustment for gain included in net income	(3,158)	-
Other comprehensive loss, net of tax	(19,794)	(47,062)
Comprehensive income	$108,387	$ 72,903

	Nine Months Ended September 30, 2001	2000
Average shares of basic common stock outstanding	99,287	97,944
Basic and diluted earnings per common share on average shares outstanding	$ 1.29	$ 1.22

CONSOLIDATED RETAINED EARNINGS

	2001	2000
Balance at January 1	$1,069,486	$1,001,029
Add - net income	128,619	122,953
- gain (loss) on treasury stock	801	(959)
	1,198,906	1,123,023
Deduct - dividends paid		
Preferred stock	96	2,646
Preference stock	342	342
Common stock - $.705 per share in 2001; $.675 per share in 2000	69,918	65,960
	70,356	68,948
Balance at September 30	$1,128,550	$1,054,075

The accompanying information and 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 2001	December 31 2000
ASSETS		
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	$ 5,358,174	$ 5,202,833
Utility plant acquisition adjustments, net	72,881	75,294
Non-utility property, net of accumulated depreciation	47,236	37,831
Excess of cost of investments in subsidiaries over book equity at acquisition, net	59,142	55,590
Total property, plant and equipment	5,537,433	5,371,548
Current assets		
Cash and cash equivalents	43,357	28,571
Customer accounts receivable	134,232	103,975
Allowance for uncollectible accounts	(3,316)	(2,575)
Unbilled revenues	94,168	83,878
Miscellaneous receivables	12,911	15,117
Materials and supplies	23,154	20,683
Deferred vacation pay	12,818	10,923
Restricted funds	224	224
Other	17,820	16,900
Total current assets	335,368	277,696
Regulatory and other long-term assets		
Regulatory asset - income taxes recoverable through rates	216,376	216,652
Other investments	39,196	73,997
Debt and preferred stock expense	46,571	47,630
Deferred pension expense	28,755	23,479
Deferred postretirement benefit expense	9,521	10,129
Deferred business services project costs	32,559	4,796
Deferred tank painting costs	16,005	16,829
Restricted funds	8,590	8,343
Other	88,301	83,699
Total regulatory and other long-term assets	485,874	485,554
TOTAL ASSETS	$ 6,358,675	$ 6,134,798

	September 30 2001	December 31 2000
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stockholders' equity	$ 1,746,520	$ 1,669,677
Preferred stocks without mandatory redemption requirements	11,673	11,673
Preferred stocks of subsidiaries with mandatory redemption requirements	30,698	32,902
Preferred stocks of subsidiaries without mandatory redemption requirements	8,118	8,118
Long-term debt		
American Water Works Company, Inc.	147,000	159,000
Subsidiaries	2,234,916	2,112,165
Total capitalization	4,178,925	3,993,535
Current liabilities		
Short-term debt	447,556	412,179
Current portion of long-term debt	79,661	161,395
Accounts payable	46,344	52,447
Taxes accrued, including federal income	86,402	25,960
Interest accrued	49,153	42,641
Accrued vacation pay	13,060	11,564
Other	66,758	67,865
Total current liabilities	788,934	774,051
Regulatory and other long-term liabilities		
Advances for construction	224,741	216,125
Deferred income taxes	603,051	605,343
Deferred investment tax credits	38,889	40,098
Accrued pension expense	61,231	50,414
Accrued postretirement benefit expense	13,394	13,930
Other	37,263	37,823
Total regulatory and other long-term liabilities	978,569	963,733
Contributions in aid of construction	412,247	403,479
Commitments and contingencies	--	--
TOTAL CAPITALIZATION AND LIABILITIES	$ 6,358,675	$ 6,134,798

The accompanying information and 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, 2001	Nine Months Ended September 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$128,619	$122,953
Adjustments		
Depreciation and amortization	136,248	122,061
Provision for deferred income taxes	10,148	13,757
Provision for losses on accounts receivable	7,266	6,334
Allowance for other funds used during construction	(3,364)	(5,747)
Gain from sale of telecommunications company investments	(5,177)	-
Gain from sale of operating system	(4,820)	-
Employee benefit expenses greater than funding	525	4,946
Employee stock plan expenses	3,745	(2)
Deferred business services project expenses	(27,763)	-
Deferred tank painting costs	(2,184)	(1,591)
Deferred rate case expense	(2,095)	(1,322)
Amortization of deferred charges	12,332	8,266
Other, net	(2,683)	(7,047)
Changes in assets and liabilities, net		
Accounts receivable	(34,576)	(29,458)
Unbilled revenues	(10,290)	(7,489)
Other current assets	(3,391)	(4,226)
Accounts payable	(6,103)	(26,480)
Taxes accrued, including federal income	60,442	21,206
Interest accrued	6,512	4,679
Other current liabilities	(1,107)	(19,778)
Net cash from operating activities	262,284	201,062
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(251,225)	(253,011)
Allowance for other funds used during construction	3,364	5,747
Acquisitions	(55,859)	(48,951)
Proceeds from the disposition of property, plant and equipment	19,359	2,342
Removal costs from property, plant and equipment retirements	(9,633)	(4,500)
Restricted funds	(247)	12,540
Net cash used in investing activities	(294,241)	(285,833)

Nine Months Ended	September 30, 2001	September 30, 2000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	$148,321	$ 46,014
Proceeds from common stock	34,736	25,455
Purchase of common stock for treasury	(932)	(3,426)
Net borrowings under short-term debt agreements	35,377	73,583
Advances and contributions for construction, net of refunds	22,109	21,243
Debt issuance costs	(1,004)	(1,782)
Repayment of long-term debt	(119,304)	(26,796)
Redemption of preferred stocks	(2,204)	(926)
Dividends paid	(70,356)	(68,948)
Net cash from financing activities	46,743	64,417
Net increase (decrease) in cash and cash equivalents	14,786	(20,354)
Cash and cash equivalents at January 1	28,571	43,100
Cash and cash equivalents at September 30	$43,357	$ 22,746

Common stock issued in lieu of cash in connection with the Employees' Stock Ownership Plan, the Savings Plan for Employees and the 2000 Stock Award and Incentive Plan totaled $1,488 in 2000.

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 $1,774 in 2001 and $4,871 in 2000.

The accompanying information and 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 2001	December 31 2000
Preferred stocks without mandatory redemption requirements		
Cumulative preferred stock - $25 par value		
5% series (one-tenth of a vote per share) - 101,777 shares outstanding	$ 2,544	$ 2,544
Cumulative preference stock - $25 par value		
Authorized - 750,000 shares		
5% series (non-voting) - 365,158 shares outstanding	9,129	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	$ 11,673
Common stockholders' equity		
Common stock - $1.25 par value		
Authorized - 300,000,000 shares		
Issued - 100,006,273 shares in 2001; 98,819,845 shares in 2000	$ 125,008	$ 123,525
Paid-in capital	489,257	454,568
Retained earnings	1,128,550	1,069,486
Accumulated other comprehensive income	5,509	25,303
Unearned compensation	(778)	(359)
Treasury stock at cost - 34,731 shares in 2001; 129,216 shares in 2000	(1,026)	(2,846)
	$1,746,520	$1,669,677

At September 30, 2001, 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 4,254,367 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, 2001.

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, consisting of normal recurring 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 -- RWE/AG Acquisition of American Water Works
On September 17, 2001 the Company announced that it had entered into a definitive agreement under which an indirect wholly owned subsidiary of RWE Aktiengesellschaft (RWE/AG) will merge with and into the Company, with each outstanding share of the Company's common stock converted in the merger into the right to receive $46.00 per share in cash. RWE/AG 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 wastewater management services.

RWE/AG's all-cash proposal represents a 37.2% premium over the average closing price per share of the Company's shares over the 30 trading days prior to September 10, 2001, and a 29.5% premium over the highest closing share price the Company's stock ever obtained prior to the public announcement of the agreement. The proposed transaction has a total value of $7.6 billion, including the assumption of approximately $3.0 billion in debt the Company had outstanding as of June 30, 2001.

Upon completion of the transaction, the Company will join with Thames Water, RWE/AG's London-based international water services business. The American Water brand will continue, and its management team headquartered in Voorhees, New Jersey is expected to lead the RWE/AG-Thames water business in North, Central and South America.

The transaction is expected to take at least a year to complete, following approval by the Company's shareholders and appropriate state regulatory agencies. The Company has identified fourteen states that it believes are required to approve the transaction. Those states are Arizona, California, Connecticut, Illinois, Kentucky, Maryland, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Virginia, and West Virginia. Approval in Connecticut and New Hampshire will likely not be required when the sale of those properties to Kelda Group (See Note 3) is completed. In five states only advisory letter filings are required. Those states are Hawaii, Iowa, Missouri, Tennessee, and Texas. The Company does not believe filings will be necessary in Georgia, Indiana, Massachusetts, and Michigan.

NOTE 3 -Sales of Operating Systems
TOWN OF SALISBURY MASSACHUSETTS
On September 28, 2001 the Company completed the sale of its Salisbury

Water Supply Company's operating system to the Town of Salisbury, Massachusetts for $11.5 million in cash plus outstanding accounts receivable. The Salisbury system serves 3,000 customers and had revenues of $1.9 million in 2000.

KELDA GROUP ACQUISITION OF NEW ENGLAND OPERATIONS
Kelda Group Plc and the Company jointly announced on August 30, 2001 that they had reached an agreement whereby Kelda Group would acquire the Company's New England operations. The transaction price is approximately $118 million in cash plus the assumption of $115 million in debt.

The utility operations being acquired by Kelda Group serve a total of 64,000 customers and had revenues of $47.3 million in 2000. Massachusetts Capital Resources Company, a finance subsidiary of the Company, which owns and leases certain assets to Massachusetts-American, will also be acquired as part of the transaction.

The Public Utility Commissions in Connecticut, New York, and New Hampshire must approve the Kelda Group transaction, which is expected to be consummated by the end of the first half of 2002. The transaction is also subject to review by the Federal Trade Commission.

Note 4 -- Pending Acquisition
WATER AND WASTEWATER ASSETS OF CITIZENS COMMUNICATIONS
On October 15, 1999, the Company entered into an agreement to acquire all of the water and wastewater utility assets of Citizens Communications Company (formerly Citizens Utilities Company) (NYSE:CZN) for $835 million in cash and debt. Citizens provides water and wastewater service to 305,000 customers in Arizona, California, Illinois, Indiana, Ohio and Pennsylvania. For the latest fiscal year ended December 31, 2000, the operations being acquired had revenues of approximately $110 million.

The Company now has approval from state regulatory agencies in all six states covered by the purchase agreement. The California Public Utility Commission approved the Company's acquisition of Citizens' water and wastewater assets in that state on September 30, 2001, but the Company is awaiting a possible rehearing before that commission and a possible appellate proceeding before closing the acquisition.

Note 5-- Acquisition
AZURIX NORTH AMERICA AND AZURIX INDUSTRIALS
On August 6, 2001 the Company entered into an agreement to acquire Azurix North America Corp. and Azurix Industrials Corp. for approximately $150 million in cash and debt. Azurix North America and Azurix Industrials are wholly-owned subsidiaries of Azurix Corp. and provide a range of water and wastewater services, including operations and maintenance, engineering, carbon regeneration, underground infrastructure rehabilitation and residuals management.

Azurix North America and Azurix Industrials, which had revenues totaling approximately $157 million in 2000, have approximately 1,050 employees and operate facilities serving an end-user population of approximately 2 million people across North America.

This acquisition, which was completed on November 7, 2001, strengthens the Company's position as a premier provider of water resource management services in the United States and Canada.

Note 6-- Security Issues
In the aftermath of the tragic events of September 11, 2001, all aspects of how the Company secures its facilities in order to protect the safety of its customers and associates are being reviewed and additional security measures are being implemented. It is anticipated that these additional measures will result in a significant increase in spending on security.

The regulated utility subsidiaries are seeking recognition of these increased security costs in the rates charged for utility service. At this time the Company plans to defer these additional costs because it believes that it is probable that they will be recovered in rates, and therefore expects no significant impact on the Company's financial position or results of operations.

NOTE 7 -- New Accounting Standards
On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. The statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 was issued by the Financial Accounting Standards Board in June of 1998 and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

This new accounting standard did not have any effect on the Company's financial position or results of operations. The Company's contracts that meet the definition of a derivative are for normal purchases and normal sales, are expected to result in a physical delivery, and are of quantities expected to be used or sold over a reasonable period in the normal course of business. The Company has no hedging activities.

In June of 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). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

Also in June of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 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 effect that adoption of the provisions of SFAS 143 will have on its results of operations and financial position.

In August of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standard 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. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company is currently evaluating the effect that adoption of the provisions of SFAS 144 will have on its results of operations and financial position.

Note 8 - Subsequent Event
On November 6, 2001 the Company and its financing subsidiary, American Water Capital Corp., executed a Note Purchase Agreement for up to $1.2 billion in senior unsecured notes at an interest rate of 4.92%. The notes will be purchased at par by RWE/AG and mature on November 6, 2006. The Company and its subsidiaries are using proceeds from the sale of the notes to acquire the common stock of Azurix North America and Azurix Industrials, to fund the acquisition of the water and wastewater assets of Citizens Communication Company and to reduce outstanding short-term debt. Closing will occur in two or more tranches, the first of which took place on November 6, 2001 in the amount of $298.5 million.

PART I - FINANCIAL INFORMATION

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

Results of Operations

Operating revenues for the third quarter and the first nine months of 2001 were higher than for the same periods of 2000 by 8% and 6%, respectively. Increased revenues were the result of water sales to 40,000 new customers, authorized increases in rates charged for service and modest weather pattern improvements.

Water sales volume during the third quarter of 2001 increased 3% to 102.0 billion gallons from 99.5 billion gallons in the third quarter of 2000. The 260.7 billion gallons of sales volume for the first nine months of 2001 was 1% greater than the 258.0 billion gallons sold in the same period of 2000.

During 2001, ten utility subsidiaries have received rate decisions, which are expected to provide approximately $23.5 million in additional annual revenues. Four subsidiaries have rate increase applications on file before regulatory agencies, which, if granted in full, would provide approximately $55.4 million in additional annual revenues. The largest portion of this total is from two separate requests filed by Pennsylvania-American and Indiana-American at $39 million and $13 million, respectively. Decisions in the Pennsylvania and Indiana cases are expected in the first and third quarters of 2002, respectively.

Operating expenses in the third quarter and the first nine months of 2001 were 8% and 6% higher compared to the same periods in 2000. Operation and maintenance expenses increased by 8% and 6% in the third quarter and the first nine months when compared to the same periods in 2000 primarily because of increased production costs such as power, purchased water and chemicals. A portion of the expense increase was associated with customer growth. The increases in depreciation expense for the quarter and first nine months were related to the Company's ongoing program of utility plant construction.

Interest expense decreased by 2% in the third quarter and increased 1% in the first nine months of 2001 compared to the same periods in 2000, reflecting declining interest rates in 2001. The total allowance for funds used (equity and borrowed) during construction ("AFUDC") recorded in the third quarter of 2001 was $2.1 million, compared to $2.2 million in the third quarter of 2000. AFUDC for the first nine months of 2001 was $6.4 million compared to $10.0 million for the same period in 2000. The utility subsidiaries record AFUDC to the extent permitted by the regulatory authorities. During the third quarter and first nine months of 2001 the Company sold a portion of its telecommunication company investments and realized pre-tax gains of $1.8 million and $5.2 million in other income.

Income taxes increased in the third quarter and first nine months of 2001 when compared to the comparable periods in 2000, as a result of increased earnings in 2001.

Net income to common stock was $55.6 million for the third quarter of 2001 compared with $49.7 million for the same period in 2000. Net income to common stock for the first nine months of 2001 was $128.2 million compared with $120.0 million for the first nine months of 2000.

Other comprehensive loss was $13.3 million and $19.8 million in the third quarter and first nine months of 2001, respectively, compared to other comprehensive loss of $23.9 million and $47.1 million in the same periods in 2000. The Company's other comprehensive loss represents the unrealized loss on passive investments in publicly traded securities.

Earnings per share of common stock in 2001 were $.63 for the quarter and $1.36 for the nine months ended September 30, 2001 prior to one-time transactions. Earnings per share in 2000 were $.51 for the third quarter and $1.22 for the nine months year-to-date. In 2001 a $.10 per share charge resulted from expenses incurred for the RWE/AG transaction and a $.03 per share net gain was recorded for the sale of the operating system in Salisbury Massachusetts. After these one-time transactions, per share earnings in 2001 were $.56 for the third quarter and $1.29 for the year-to-date.

Capital Resources and Liquidity

During the first nine months of 2001, 1,154,244 shares of common stock were issued in connection with the Dividend Reinvestment and Stock Purchase Plan, and 32,184 shares were issued for non-qualified stock options that were exercised. Also, 163,892 non-qualified stock options were granted in connection with the 2000 Stock Award and Inventive Plan during the first nine months of 2001.

The Company issued 153,648 shares of common stock out of treasury during the first nine months of 2001 in connection with the Employees' Stock Ownership Plan, the Savings Plan for Employees and the 2000 Stock Award and Incentive Plan.

On March 29, 2001 the Company's financing subsidiary, American Water Capital Corp. (AWCC) closed on its inaugural long-term debt financing of $140 million. The securities issued are senior unsecured notes carrying an interest rate of 6.87% maturing on March 29, 2011. The Company loaned the proceeds of that financing to nine utility subsidiaries to repay short-term debt. In the first nine months of 2001, the Company invested $7.2 million in the common stock of two subsidiaries.

New Accounting Standards

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. The statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 was issued by the Financial Accounting Standards Board in June of 1998 and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

This new accounting standard did not have any effect on the Company's financial position or results of operations. The Company's contracts that meet the definition of a derivative are for normal purchases and normal sales, are expected to result in a physical delivery, and are of quantities expected to be used or sold over a reasonable period in the normal course of business. The Company has no hedging activities.

In June of 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). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

Also in June of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 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 effect that adoption of the provisions of SFAS 143 will have on its results of operations and financial position.

In August of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standard 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.
SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company is currently evaluating the effect that adoption of the provisions of SFAS 144 will have on its results of operations and financial position.

Subsequent Event

On November 6, 2001 the Company and its financing subsidiary, American Water Capital Corp., executed a Note Purchase Agreement for up to $1.2 billion in senior unsecured notes at an interest rate of 4.92%. The notes will be purchased at par by RWE/AG and mature on November 6, 2006. The Company and its subsidiaries are using proceeds from the sale of the notes to acquire the common stock of Azurix North America and Azurix Industrials, to fund the acquisition of the water and wastewater assets of Citizens Communication Company and to reduce outstanding short-term debt. Closing will occur by the issuance of two or more tranches, the first of which took place on November 6, 2001 in the amount of $298.5 million.

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 II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

Exhibit Number	Description
10	Material Contracts
	(a) Note Purchase Agreement for up to $1.2 billion 4.92% senior notes due November 6, 2006

B. Reports on Form 8-K

A current report on Form 8-K was filed on August 7, 2001 by the Company regarding the agreement to acquire Azurix North America Corp. and Azurix Industrials Corp.

A current report on Form 8-K was filed on August 30, 2001 by the Company regarding the agreement to sell the Company's New England Operations to the Kelda Group Plc.

A current report on Form 8-K was filed on September 17, 2001 by the Company regarding the RWE/AG merger agreement.

A current report on Form 8-K was filed on October 30, 2001 by the Company regarding the release of the Company's third quarter earnings.

A current report on Form 8-K was filed on November 7, 2001 by the Company regarding the note purchase agreement with RWE/AG.

A current report on Form 8-K was filed on November 8, 2001 by the Company regarding completion of the acquisition of Azurix North America Corp. and Azurix Industrials Corp.

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, 2001

\s\Ellen C. Wolf
Vice President and Chief Financial Officer
(Authorized Officer)

Date November 14, 2001

\s\Robert D. Sievers
Comptroller
(Chief Accounting Officer)