

American Water Capital Corp.  
Form 424B3  
May 12, 2008  
Table of Contents

Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-148284  
Registration No. 333-148284-01

Prospectus

**American Water Capital Corp.**  
**American Water Works Company, Inc.**  
**Offer to Exchange**

**6.085% Senior Notes due 2017**

**6.593% Senior Notes due 2037**

**For a Like Principal Amount of New**

**For a Like Principal Amount of New**

**6.085% Senior Notes due 2017**

**6.593% Senior Notes due 2037**

We are offering to exchange up to (i) \$750,000,000 aggregate principal amount of new 6.085% Senior Notes due 2017, which we refer to as the new 2017 notes, for a like principal amount of the outstanding 6.085% Senior Notes due 2017, which have certain transfer restrictions, which we refer to as the original 2017 notes and (ii) \$750,000,000 aggregate principal amount of new 6.593% Senior Notes due 2037, which we refer to as the new 2037 notes and, together with the new 2017 notes, as the new notes, for a like principal amount of the outstanding 6.593% Senior Notes due 2037, which have certain transfer restrictions, which we refer to as the original 2037 notes and, together with the original 2017 notes, as the original notes. The original notes and the new notes are collectively referred to in this prospectus as the notes. The new notes will be free of the transfer restrictions that apply to the original notes that you currently hold, but will otherwise have substantially the same terms as the outstanding original notes and will be issued under the same indenture. The new notes will not trade on any established exchange.

**This offer will expire at 5:00 p.m., New York City time, on June 11, 2008, unless we extend it.**

Each broker-dealer that receives new notes for its own account pursuant to this exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. The letter of transmittal accompanying this prospectus states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act of 1933, as amended. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for outstanding original notes where such outstanding original notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, starting on the expiration date and for a period ending upon the earlier of the 180th day after the expiration of this exchange offer or such time as such broker-dealers no longer own any original notes, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

**SEE RISK FACTORS BEGINNING ON PAGE 11 TO READ ABOUT IMPORTANT FACTORS YOU SHOULD CONSIDER IN CONNECTION WITH THIS EXCHANGE OFFER.**

**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.**

Prospectus dated May 12, 2008.

**Table of Contents**

You should rely only on the information contained in this 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.

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Where You Can Find More Information</u>	ii
<u>Industry and Market Data</u>	ii
<u>Forward-Looking Statements</u>	iii
<u>Summary</u>	1
<u>Risk Factors</u>	11
<u>Use of Proceeds</u>	25
<u>Ratio of Earnings to Fixed Charges</u>	26
<u>The Exchange Offer</u>	27
<u>Unaudited Pro Forma Condensed Consolidated Financial Information</u>	35
<u>Selected Historical Consolidated Financial Data</u>	41
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	43
<u>Business</u>	77
<u>Management</u>	105
<u>Certain Relationships and Related Transactions</u>	144
<u>Principal Stockholders</u>	148
<u>Description of Other Indebtedness</u>	150
<u>Description of the Notes</u>	154
<u>United States Federal Income Tax Considerations</u>	170
<u>Plan of Distribution</u>	171
<u>Legal Matters</u>	172
<u>Experts</u>	172
<u>Glossary</u>	G-1
<u>Index to Consolidated Financial Statements</u>	F-1

**Table of Contents**

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the Securities and Exchange Commission, which we refer to as the SEC, a registration statement on Form S-4 under the Securities Act of 1933, as amended, which we refer to as the Securities Act, with respect to the this exchange offer. This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the registration statement. For further information about us and the securities we propose to exchange in this exchange offer, we refer you to the registration statement and the exhibits and schedules filed as a part of the registration statement. Statements contained in this prospectus as to the contents of any contract or other document filed as an exhibit to the registration statement are not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, we refer you to the copy of the contract or document that has been filed. The registration statement may be inspected without charge at the principal office of the SEC in Washington, D.C. and copies of all or any part of the registration statement may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E. Washington, D.C. 20549. The SEC's toll-free number is 1-800-SEC-0330. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, and are required to file periodic reports, proxy statements and other information with the SEC. The periodic reports and other information that we file with the SEC will be available for inspection and copying at the SEC's public reference facilities and on the website of the SEC referred to above.

**INDUSTRY AND MARKET DATA**

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

(ii)

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

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

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

weather conditions, patterns or events, including drought or abnormally high rainfall;

changes in general economic, business and financial market conditions;

changes in laws, governmental regulations and policies, including environmental, health and water quality and public utility regulations and policies;

the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;

the timeliness of regulatory commissions' actions concerning rates;

migration into or out of our service territories;

our ability to obtain permits for expansion projects;

changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts;

the availability of adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our operations;

our ability to successfully acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business;

our ability to manage the expansion of our business;

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

access to sufficient capital on satisfactory terms;

fluctuations in interest rates;

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

changes in our credit rating;

changes in capital requirements;

the incurrence of impairment charges;

difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions;

(iii)

**Table of Contents**

ability to retain and attract qualified employees;

cost overruns relating to improvements or the expansion of our operations; and

civil disturbance or terrorist threats or acts or public apprehension about future disturbances or terrorist threats or acts.

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

(iv)

**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 in the **Glossary**.*

**Our Company**

Founded in 1886, American Water Works Company, Inc., which we refer to, together with its subsidiaries, as American Water or the Company, is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our nearly 7,000 employees provide approximately 15.6 million people with drinking water, wastewater and other water-related services in 32 states and Ontario, Canada.

Our primary business involves the ownership of regulated water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers, treating and delivering over one billion gallons of water per day. Our subsidiaries that provide these services are generally subject to economic regulation by state Public Utility Commissions, which we refer to as state PUCs, in the states in which they operate. In 2007, we generated \$2,214.2 million in total operating revenue, representing approximately four times the operating revenue of the next largest investor-owned company in the United States water and wastewater business, \$15.1 million in operating income, which includes \$509.3 million of impairment charges relating to continuing operations, and a net loss of \$342.8 million. Our Regulated Businesses, operating in 20 states in the United States, generated 89.8% of our total operating revenue in 2007.

We also provide services that are not subject to economic regulation by state PUCs. Our Non-Regulated Businesses include our Contract Operations Group, our Applied Water Management Group and our Homeowner Services Group. In 2007, our Non-Regulated Businesses generated \$242.7 million in operating revenue, prior to inter-segment eliminations.

**Our Industry**

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

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

The utility segment is characterized by high barriers to entry, including high capital spending requirements. Investor-owned water and wastewater utilities also face regulatory approval processes in order to do business, which may involve obtaining relevant operating approvals, including certificates of public convenience and necessity (or similar authorizations), pursuant to which state PUCs grant investor-owned utilities the right to provide service within an authorized service area. The utility segment of the United States water and wastewater



## **Table of Contents**

industry is highly fragmented, with approximately 53,000 community water systems and approximately 16,000 community wastewater facilities, according to the United States Environmental Protection Agency, or EPA, and therefore presents opportunities for consolidation. Larger utilities, such as ours, that have greater access to capital are generally more capable of making mandated and other necessary infrastructure upgrades to water and wastewater systems.

### **Our Strengths**

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

***Market leader with broad national footprint and strong local presence.*** We are the largest and most geographically diversified investor-owned water and wastewater utility company in the United States. Our scale provides us with a competitive advantage in procuring goods and services reliably and economically. Our geographic scope enables us to capitalize effectively on growth opportunities across our service areas, while helping to insulate us from adverse conditions relating to regulatory environments, weather and economic conditions in any one geographic area. Also, our active community involvement supports customer satisfaction.

***Regulated Businesses provide financial stability.*** Our Regulated Businesses provide a high degree of financial stability because (i) high barriers to entry insulate us from competitive pressures, (ii) economic regulation promotes predictability in financial planning and long-term performance through the rate-setting process and (iii) our largely residential customer base promotes consistent operating results.

***Experience in securing appropriate rates of return and promoting constructive regulatory frameworks.*** We seek appropriate rates of return on our investment and a return of our investment and recovery of prudently incurred operating expenses from state PUCs in the form of rate increases, which we refer to as rate relief. We have a strong track record of providing reliable service at cost-effective rates, which has generally allowed us to maintain positive relations with regulators. We have generally been granted rate relief in a timely manner after application.

***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.

We intend to invest capital prudently to enable us to continue to provide essential services to our customers in the water and wastewater utility industry and to municipalities in meeting the capital challenges of making substantial required infrastructure upgrades.

Our Regulated Businesses provide a large platform on which to grow both organically and through consolidation from among the numerous water and wastewater systems in the United States.

Our national footprint increases our ability to make opportunistic investments in non-regulated businesses that are complementary to our Regulated Businesses.

***Experienced senior management team.*** Our three senior managers have an average of 27 years of experience in the utilities industry. Our 14 state presidents have an average of 25 years of experience in the utilities industry.

***Industry leader in water quality, testing and research.*** We are experts in water quality testing, compliance and treatment and have established and own industry-leading water testing facilities. Our technologically advanced quality control and testing laboratory in Belleville, Illinois is certified in 23 states and Puerto Rico.

## **Table of Contents**

### **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 majority-owned subsidiary of RWE Aktiengesellschaft, a stock corporation incorporated in the Federal Republic of Germany whose shares are publicly listed on the Frankfurt and Düsseldorf stock exchanges and other German stock exchanges as well as on the Zurich stock exchange, which we refer to as RWE. RWE is one of Europe's leading electricity and gas companies and supplies 20 million customers with electricity and 10 million customers with gas in Germany, the United Kingdom and Central and Eastern Europe. On November 4, 2005, RWE announced its intention to exit its water activities in the United States and the United Kingdom to focus on its core European electricity and gas business and has since then completed the divestiture of its water business in the United Kingdom. As a part of this strategy, RWE intends to fully divest its ownership of American Water through the consummation of one or more public offerings of common stock of American Water as soon as reasonably practicable, subject to market conditions, which we refer to as the RWE Divestiture. On April 28, 2008, our initial public offering was consummated pursuant to which RWE Aqua Holdings, GmbH, a direct wholly-owned subsidiary of RWE, sold approximately 36% of our outstanding common stock. On September 28, 2007, Thames Water Aqua US Holdings, Inc., at the time an indirect wholly owned subsidiary of RWE, which we refer to as Thames US Holdings, was merged with and into American Water with American Water being the surviving entity, which we refer to as the Merger.

On September 20, 2007, American Water Capital Corp., our wholly owned financing subsidiary, which we refer to as AWCC or the issuer, issued \$1,750.0 million of debt to RWE, which we refer to as the RWE redemption notes, which was used to fund the early redemption of \$1,750.0 million of preferred stock held by RWE. In addition, on October 22, 2007 we used the net proceeds from the issuance of the original notes, to fund the repayment of \$1,286.0 million aggregate principal amount of RWE redemption notes and \$206.0 million (including after tax gains of \$2.2 million, net of \$1.4 million of tax) aggregate principal amount of other debt owed to RWE, which we refer to as the RWE notes.

On November 7, 2007, we effected a 160,000-for-1 stock split.

In December 2007 we used the net proceeds from the issuance of approximately \$415.0 million of commercial paper and \$49.0 million of excess cash to fund the repayment of approximately \$464.0 million of RWE redemption notes.

These transactions, together with 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, 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, and the cash equity contribution to the Company by RWE of \$266.0 million on December 21, 2007, which was used to pay down \$266.0 million of commercial paper, are collectively referred to as the Refinancing. The Refinancing, the Merger and the 160,000-for-1 split of common stock are collectively referred to in this prospectus as the Transactions.



## **Table of Contents**

### **Organizational Structure**

American Water is currently a direct majority-owned subsidiary of RWE Aqua Holdings GmbH, a limited liability company organized under the laws of the Federal Republic of Germany and a direct wholly owned subsidiary of RWE. The following chart sets forth our organizational structure:

### **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.**

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.

### **Recent Developments**

On December 21, 2007, our subsidiary, New Jersey American Water, signed an agreement with the city of Trenton, New Jersey to purchase the assets of the city's water system located in Ewing, Hamilton, Hopewell and Lawrence townships, which will add approximately 39,000 customers to our Regulated Businesses. The purchase price is \$100 million, and the agreement was approved by the Trenton City Council. The agreement requires approval by various regulatory agencies, including the New Jersey Board of Public Utilities. We can provide no assurances that the agreement will be approved.

On April 11, 2008, the Company entered into an agreement to issue through AWCC \$110 million of 6.25% senior notes due 2018 and \$90 million of 6.55% senior notes due 2023 in a private placement to be consummated on May 15, 2008, the proceeds of which will be used to refinance outstanding short term indebtedness of AWCC and for general corporate purposes.

In April and May 2008, the Company redeemed an aggregate of \$144.7 million of long-term auction rate debt of its subsidiaries with interest rates ranging from 6.48% to 10% per annum and maturities ranging from 2021 to 2032.

**Table of Contents**

**SUMMARY OF THE TERMS OF THE EXCHANGE OFFER**

Background	On October 22, 2007, we completed a private placement of (i) \$750,000,000 aggregate principal amount of the original 2017 notes and (ii) \$750,000,000 aggregate principal amount of the original 2037 notes. In connection with that private placement, we entered into an exchange and registration rights agreement in which we agreed to, among other things, complete an exchange offer for the original notes.
The Exchange Offer	We are offering to exchange our new notes for a like principal amount of our outstanding original notes. Original notes may only be tendered in principal amounts of \$2,000 or in integral multiples of \$1,000 principal amount in excess thereof. See The Exchange Offer Terms of the Exchange.
Resale of New Notes	<p>Based upon the position of the staff of the SEC as described in previous no-action letters, we believe that each series of new notes issued pursuant to the exchange offer in exchange for original notes may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act, <i>provided that</i>:</p> <p>you are acquiring the new notes in the ordinary course of your business;</p> <p>you have not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in a distribution of the new notes; and</p> <p>you are not our affiliate as defined under Rule 405 of the Securities Act.</p> <p>We do not intend to apply for listing of the new notes on any securities exchange or to seek approval for quotation through an automated quotation system. Accordingly, there can be no assurance that an active market will develop upon completion of the exchange offer or, if developed, that such market will be sustained or as to the liquidity of any market. Each participating broker-dealer that receives new notes for its own account pursuant to the exchange offer in exchange for original notes that were acquired as a result of market-making or other trading activity, may be a statutory underwriter and must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act, which may be the prospectus for the exchange offer so long as it contains a plan of distribution with respect to the resale transactions, in connection with any resale of new notes. See Plan of Distribution.</p>

**Table of Contents**

Consequences If You Do Not Exchange Your Original Notes Original notes that are not tendered in the exchange offer or are not accepted for exchange will continue to bear legends restricting their transfer. You will not be able to offer or sell such original notes:

except pursuant to an exemption from the requirements of the Securities Act; or

unless the original notes are registered under the Securities Act.

After the exchange offer is closed, we will no longer have an obligation to register the original notes, except for some limited exceptions. See Risk Factors Risks Relating to the Notes and the Exchange Offer If you fail to exchange your original notes, they will continue to be restricted securities and may become less liquid.

Expiration Date

The exchange offer will expire at 5:00 p.m., New York City time, on June 11, 2008, unless we extend the exchange offer. See The Exchange Offer Expiration Date; Extensions; Amendments.

Exchange Date; Issuance of New Notes

The date of acceptance for exchange of each series of original notes is the exchange date, which will be the first business day following the expiration date of the exchange offer. We will issue new notes in exchange for original notes tendered and accepted in the exchange offer promptly following the exchange date. See The Exchange Offer Terms of the Exchange.

Certain Conditions to the Exchange Offer

The exchange offer is subject to certain customary conditions, which we may waive. See The Exchange Offer Conditions to the Exchange Offer.

Special Procedures for Beneficial Holders

If you beneficially own original notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender in the exchange offer, you should contact such registered holder promptly and instruct such person to tender on your behalf. If you wish to tender in the exchange offer on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your original notes, either arrange to have the original notes registered in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take a considerable time. See The Exchange Offer Procedures for Tendering.

Withdrawal Rights

You may withdraw your tender of original notes at any time before the exchange offer expires. See The Exchange Offer Withdrawal of Tenders.

**Table of Contents**

Accounting Treatment	We will not recognize any gain or loss for accounting purposes upon the completion of the exchange offer. The expenses of the exchange offer that we pay will increase our deferred financing costs in accordance with generally accepted accounting principles. See The Exchange Offer Accounting Treatment.
Certain Tax Consequences	The exchange pursuant to the exchange offer generally will not be a taxable event for U.S. Federal income tax purposes. See United States Federal Income Tax Considerations.
Use of Proceeds	We will not receive any proceeds from the exchange or the issuance of new notes in connection with the exchange offer. See Use of Proceeds.
Exchange Agent	Wells Fargo Bank, National Association is serving as exchange agent in connection with the exchange offer. See The Exchange Offer Exchange Agent.

**Table of Contents**

**SUMMARY OF THE TERMS OF THE NOTES**

*Other than the obligation to conduct an exchange offer, the new notes will have the same financial terms and covenants as the original notes, which are as follows:*

Issuer	American Water Capital Corp.
Securities Offered	\$750,000,000 aggregate principal amount of 6.085% Senior Notes due 2017, which we refer to as the new 2017 notes; and \$750,000,000 aggregate principal amount of 6.593% Senior Notes due 2037, which we refer to as the new 2037 notes, collectively referred to as the new notes.
Maturity Date	The new 2017 notes will mature on October 15, 2017; and the new 2037 notes will mature on October 15, 2037.
Interest Payment Dates	April 15 and October 15 of each year, beginning April 15, 2008.
Support Agreement	The new notes will have the benefit of a support agreement from American Water, pursuant to which American Water has agreed to pay to any debt investor or lender any principal or interest owed by the issuer to such debt investor or lender that the issuer fails to pay on a timely basis, referred to herein as the support agreement.
Ranking	<p>The new notes will be the issuer's unsecured senior obligations and will:</p> <p>rank equal in right of payment to all of the issuer's existing and future unsecured obligations that are not, by their terms, expressly subordinated in right of payment to the notes;</p> <p>rank senior in right of payment to all of the issuer's future obligations that are, by their terms, expressly subordinated in right of payment to the notes; and</p> <p>rank effectively junior in right of payment to all of our future secured indebtedness to the extent of the value of the assets securing such indebtedness.</p> <p>Similarly, the obligations of American Water under the support agreement will be unsecured senior obligations of the support provider and will:</p> <p>rank equal in right of payment to all existing and future unsecured obligations of American Water that are not, by their terms, expressly subordinated in right of payment to such obligations;</p>



Edgar Filing: American Water Capital Corp. - Form 424B3

rank senior in right of payment to any future obligations of American Water that are, by their terms, expressly subordinated in right of payment to such obligations; and

**Table of Contents**

rank (i) effectively junior in right of payment to any secured indebtedness of American Water to the extent of the value of the assets securing such indebtedness and (ii) structurally junior in right of payment to any liabilities of the applicable American Water subsidiaries.

As of December 31, 2007, on a pro forma basis after giving effect to the Transactions (other than the non-cash equity contributions to the Company by RWE, which are each reflected in the historical balance sheet, and excluding the effect of the initial public offering):

The issuer would have had \$3,019.4 million of senior indebtedness, including (i) \$1,212.0 million of currently outstanding senior notes, other than the notes, (ii) \$1,500.0 million of the notes, (iii) \$86.9 million of other senior indebtedness and (iv) \$220.5 million of commercial paper and no subordinated indebtedness;

the support provider would have had no indebtedness other than its obligations under the support agreement with respect to the issuer's indebtedness; and

the subsidiaries of the support provider (other than the issuer) would have had approximately \$5,016.1 million of indebtedness and other liabilities.

**Optional Redemption**

We may redeem the new notes, in whole or in part, at any time at a redemption price equal to the greater of the principal amount of the notes and the make-whole price described under the heading **Description of the Notes** **Optional Redemption by the Issuer**.

**Repurchase Right of Holders Upon a Change in Control**

Upon the occurrence of both (i) a change of control of American Water and (ii) a downgrade of the notes below an investment grade rating by each of Moody's Investors Service, Inc. and Standard & Poor's Ratings Services within a specified period, you will have the right to require us to repurchase the new notes of each series at a price equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest, if any, on the notes repurchased, to the date of purchase. See **Description of the Notes** **Change of Control**.

**Certain Covenants**

The indenture governing the new notes contains certain covenants that, among other things, limit our ability to:

create or assume liens; and

enter into sale and leaseback transactions.

These limitations are subject to a number of significant exceptions. See **Description of the Notes** **Certain Covenants**.



**Table of Contents**

Absence of a Public Market	The new notes will generally be freely transferable but will be issues of securities for which there is currently no established market. Accordingly, there can be no assurance as to the development or liquidity of any market for the new notes.
Risk Factors	See the section entitled "Risk Factors" in this prospectus for a description of certain of the risks you should consider before deciding to participate in the exchange offer.
Governing Law	The indenture and the new notes are governed by, and construed in accordance with, the laws of the State of New York.

**Table of Contents**

**RISK FACTORS**

*In considering whether to participate in this exchange offer, you should carefully consider these risk factors together with all of the other information included in this prospectus, including the information contained in the section entitled *Management's Discussion and Analysis of Financial Condition and Results of Operations* and our consolidated financial statements included elsewhere in this prospectus and the notes thereto. If any of the following risks actually occurs, our business, financial condition, operating results and prospects could be adversely affected, which in turn could adversely affect your investment in the notes.*

**Risks Related to Our Industry and Business**

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

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

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

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

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

## **Table of Contents**

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

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

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

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

making it more difficult for us to raise our rates and, as a consequence, to recover our costs or earn our expected rates of return;

changing the determination of the costs, or the amount of costs, that would be considered recoverable in rate cases;

changing water quality or delivery service standards or wastewater collection, treatment and discharge standards with which we must comply;

restricting our ability to terminate our services to customers who owe us money for services previously provided;

requiring us to provide water services at reduced rates to certain customers;

restricting our ability to sell assets or issue securities;

changing regulatory benefits that we expected to receive when we began offering services in a particular area;

changing or placing additional limitations on change in control requirements relating to any concentration of ownership of our common stock;

making it easier for governmental entities to convert our assets to public ownership via eminent domain;

restricting or prohibiting our extraction of water from rivers, streams, reservoirs or aquifers; and

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

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

## **Table of Contents**

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

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

Governmental restrictions on water use may also result in decreased use of water services, even if our water supplies are sufficient to serve our customers, which may adversely affect our financial condition and results of operations. Seasonal drought conditions that would impact our water services are possible across all of our service areas, and drought conditions currently exist in several areas of the United States. However, these conditions are more prevalent in the Northeast and West where supply capacity is limited and per capita water demand is high. If a regional drought were to occur affecting our service areas and adjacent systems, governmental restrictions may be imposed on all systems within a region independent of the supply adequacy of any individual system. Voluntary restrictions were implemented during certain periods of 2007 in certain parts of the states of Illinois, New Jersey, Pennsylvania and Indiana and a mandatory restriction was implemented, and subsequently rescinded, in Kentucky. Following drought conditions, water demand may not return to pre-drought levels even after restrictions are lifted. Cool and wet weather may also reduce demand for water, thereby adversely affecting our financial condition, results of operations, cash flow and liquidity.

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

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

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



## **Table of Contents**

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

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

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

The water and wastewater utility business is capital intensive. In addition to our acquisition strategy, we invest significant amounts of capital to add, replace and maintain property, plant and equipment. In 2007, we invested \$758.6 million in net Company-funded capital improvements. We expect the level of capital expenditures necessary to maintain the integrity of our systems to increase in the future. We fund these projects from cash generated from operations, borrowings under our revolving credit facility and commercial paper programs and the issuance of long-term debt and equity securities. We can provide no assurances that we will be able to access the debt and equity capital markets or do so on favorable terms.

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

In addition, we believe that our dividend policy with respect to our common stock could limit, but not preclude, our ability to pursue growth. In particular, this limitation could be significant, for example, with respect to large acquisitions and growth opportunities that require cash investments in amounts greater than our operating subsidiaries' available cash or external financing resources. In order to fund construction expenditures, acquisitions (including tuck-in acquisitions) and principal and interest payments on our indebtedness, and pay dividends at the level currently anticipated under our dividend policy, we expect that we will need additional financing. However, we intend to retain sufficient cash from operating activities after the distribution of dividends to fund a portion of our capital expenditures. For further discussion of our acquisition strategy, see [Business](#) [Our Regulated Businesses](#) [Acquisitions](#).

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

## **Table of Contents**

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

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

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

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

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

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

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

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

## **Table of Contents**

criminal enforcement actions or other consequences arising out of human exposure to hazardous substances in our drinking water supplies.

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

We incur significant production costs in connection with the delivery of our water and wastewater services. Our production costs are driven by inputs such as chemicals used to treat water and wastewater as well as electricity and fuel, which are used to operate pumps and other equipment used in water treatment and delivery and wastewater collection, treatment and disposal. We also incur production costs for waste disposal. For 2007, production costs accounted for 12.8% of our total operating costs. These costs can and do increase unexpectedly and in substantial amounts, as occurred in California during 2001 and Illinois during 2007 when the cost of electricity rose substantially.

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

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

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

our suppliers may not provide raw materials that meet our specifications in sufficient quantities;

our suppliers may provide us with water that does not meet applicable quality standards or is contaminated;

our suppliers may face production delays due to natural disasters or strikes, lock-outs or other such actions;

one or more suppliers could make strategic changes in the lines of products and services they offer; and

some of our suppliers are small companies which are more likely to experience financial and operational difficulties than larger, well-established companies, because of their limited financial and other resources.

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

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

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

incurrence of debt and contingent liabilities;

failure to have or to maintain effective internal control over financial reporting;

## Table of Contents

fluctuations in quarterly results;

exposure to unknown risk and liabilities, such as environmental liabilities; and

other acquisition-related expenses.

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

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

Our total assets include substantial goodwill. At December 31, 2007, our goodwill totaled \$2,457.0 million. The goodwill is associated primarily with the acquisition of American Water by an affiliate of RWE in 2003 and the acquisition of E Town Corporation in 2001, representing the excess of the purchase price the purchaser paid over the fair value of the net tangible and intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and, in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, or SFAS No. 142, is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. Annual impairment reviews are performed in the fourth quarter. We have been required to reflect, as required by SFAS No. 142 and other applicable accounting rules, a non-cash charge to operating results for goodwill impairment in the amounts of \$396.3 million in 2005, \$227.8 million in 2006 and \$509.3 million in 2007. These amounts include impairments relating to discontinued operations.

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

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

We completed our annual goodwill impairment test for 2007 and recorded an additional goodwill impairment charge to the Regulated Businesses reporting unit in the amount of \$266.0 million during the fourth quarter of 2007. We determined that an impairment had occurred based upon new information regarding our market value. We incorporated this indicated market value into our valuation methodology and, based on those results, an additional impairment to our carrying value was recorded.

We may be required to recognize additional impairments in the future, depending on, among other factors, the market value of our common stock and its value relative to our book equity at the consummation of the initial public offering or the level over a period of time of the trading price of our stock since our initial public offering.

## **Table of Contents**

Other factors that could necessitate an impairment would include a decline over a period of time in valuation multiples of comparable water utilities and a decline in our forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates. Further recognition of impairments of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material and could make it more difficult for us to secure financing on attractive terms and maintain compliance with our debt covenants.

Based on the initial public offering price, we have determined that it is probable we will record an impairment to goodwill when we report results for the quarter ended March 31, 2008. Whether such an impairment to goodwill is recognized will depend on an analysis of the factors described above. The size of any such impairment to goodwill, if any, cannot be determined at this time.

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

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

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

Municipalities and other government subdivisions have historically been involved in the provision of water and wastewater services in the United States, and organized movements may arise from time to time in one or more of the service areas in which our Regulated Businesses operate to convert our assets to public ownership and operation through the governmental power of eminent domain. Should a municipality or other government subdivision seek to acquire our assets through eminent domain, we may resist the acquisition. Contesting an exercise of condemnation through eminent domain may result in costly legal proceedings and may divert the attention of the affected Regulated Business's management from the operation of its business.

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

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

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

In addition, two of the regulatory approvals that we and RWE obtained expire 24 months from April 22, 2008, the date of effectiveness of the registration statement for the initial public offering, and another approval

## **Table of Contents**

expires 36 months from that date. If RWE does not fully divest its ownership of American Water within 24 or 36 months of the effectiveness of the registration statement for the initial public offering, then we and RWE may be required to seek an extension of such approvals, as applicable, which process may result in delays, costs and the imposition of additional conditions on us or on RWE.

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

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

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

Under the terms of some of our indebtedness and some of our agreements with the municipalities and other governmental entities, which we serve pursuant to O&M contracts, American Water (excluding its regulated subsidiaries) provides guarantees of the performance of our Non-Regulated Businesses, including financial guarantees or deposits to ensure performance of certain obligations. At December 31, 2007, we had guarantees and deposits totaling approximately \$475.3 million, and this amount is likely to increase if our Non-Regulated Businesses grow. The presence of these contingent liabilities may adversely affect our financial condition and make it more difficult for us to secure financing on attractive terms. In addition, if the obligor on the guaranteed instrument fails to perform certain obligations to the satisfaction of the party that holds the guarantee, that party may seek to enforce the guarantee against us or proceed against the deposit. In that event, our financial condition, results of operations, cash flow and liquidity could be adversely affected.

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

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

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

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

## **Table of Contents**

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

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

power loss, computer systems failures and internet, telecommunications or data network failures;

operator negligence or improper operation by, or supervision of, employees;

physical and electronic loss of customer data or security breaches, misappropriation and similar events;

computer viruses;

intentional acts of vandalism and similar events; and

hurricanes, fires, floods, earthquakes and other natural disasters.

Such damages or interruptions may result in physical and electronic loss of customer or financial data, security breaches, misappropriation and similar events. In addition, the lack of redundancy for certain of our IT systems, including billing systems, could exacerbate the impact on the Company of any of the foregoing events.

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

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

As of December 31, 2007, after giving effect to the Transactions, our pro forma indebtedness (including preferred stock with mandatory redemption requirements) was \$5,016.1 million, and our working capital, defined as current assets less current liabilities, was in a deficit position. Our indebtedness could have important consequences, including:

limiting our ability to obtain additional financing to fund future working capital or capital expenditures;

exposing us to interest rate risk with respect to the portion of our indebtedness that bears interest at a variable rate, including \$169.6 million of our auction-rate debt that resets to higher interest rates in the event of a failed auction;

limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations;



likely requiring that a portion of our cash flow from operations be dedicated to the payment of the principal of and interest on our debt, thereby reducing funds available for future operations, acquisitions, dividends on our common stock or capital expenditures;

limiting our ability to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and

placing us at a competitive disadvantage compared to those of our competitors that have less debt.

In order to meet our capital expenditure needs, we may be required to make additional borrowings under our credit facilities or be required to issue new debt securities in the capital markets. We can provide no assurances

## **Table of Contents**

that we will be able to access the debt capital markets or do so on favorable terms. If new debt is added to our current debt levels, the related risks we now face could intensify limiting our ability to refinance existing debt on favorable terms.

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

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

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

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

Currently, approximately 3,600 employees, or approximately 51% of our total workforce, are unionized and represented by 18 different unions. Approximately one-third of our 75 union collective bargaining agreements expire annually, with 18 agreements covering 759 employees scheduled to expire before the end of 2008. We might not be able to renegotiate labor contracts on terms that are favorable to us and negotiations or dispute resolutions undertaken in connection with our labor contracts could be delayed or become subject to the risk of labor actions or work stoppages. Labor actions, work stoppages or the threat of work stoppages and our failure to obtain favorable labor contract terms during renegotiations may all adversely affect our financial condition, results of operations, cash flow and liquidity.

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

As a public company, we are required to comply with the Sarbanes-Oxley Act and other rules and regulations that govern public companies. In particular, we are required to certify our compliance with Section 404 of the Sarbanes-Oxley Act for the year ended December 31, 2009, which requires us to perform system and process evaluation and testing of our internal control over financial reporting to allow management and our registered public accounting firm to report on the effectiveness of our internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable

---

## Table of Contents

assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. However, from 2003 to April 28, 2008, we were an indirect wholly owned subsidiary of RWE, a stock corporation incorporated in the Federal Republic of Germany, and were not required to maintain a system of internal control consistent with the requirements of the SEC and the Sarbanes-Oxley Act, nor to prepare our own financial statements. As a public reporting company, we are required, among other things, to maintain a system of effective internal control over financial reporting suitable to prepare our publicly reported financial statements in a timely and accurate manner, and also to evaluate and report on such system of internal control.

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

Inadequate internal staffing and skills;

Inadequate controls over financial reporting processes;

Inadequate controls over month-end closing processes, including account reconciliations;

Inadequate controls over maintenance of contracts and agreements;

Inadequate controls over segregation of duties and restriction of access to key accounting applications; and

Inadequate controls over tax accounting and accruals.

We have initiated a remediation plan with respect to our material weaknesses, but there can be no assurances that our remediation plan will be effective. For further discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Internal Control and Remediation Initiatives."

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

### **Risks Related to the Notes and the Exchange Offer**

*The notes are structurally subordinated to all the obligations of our subsidiaries other than the issuer. The issuer's ability to service its debt is dependent on the performance of our other subsidiaries.*

The notes have been issued by American Water Capital Corp., our finance subsidiary. American Water has signed a support agreement with the issuer. The notes are not guaranteed by any of our subsidiaries and are the obligations only of the issuer and American Water, by virtue of the support agreement. Accordingly, the notes are structurally subordinated to the liabilities, including trade payables, lease commitments and moneys



## **Table of Contents**

borrowed, of American Water's subsidiaries other than the issuer. American Water has no material assets or operations other than equity interests in its subsidiaries, and the issuer has no material assets or operations except for its limited operations as a finance vehicle for our businesses. We expect that payments of interest and principal that the issuer makes on the notes (or that American Water makes pursuant to the support agreement) will be made only to the extent that our operating subsidiaries can distribute cash or other property to American Water and, through American Water, to the issuer.

Although the terms of the notes restrict our ability and the ability of our subsidiaries to incur certain liens and to enter into certain sale and leaseback transactions, the incurrence of other indebtedness or other liabilities by any of our subsidiaries is not prohibited in connection with the notes and could adversely affect our ability to pay our obligations on the notes. As of December 31, 2007, total liabilities of our subsidiaries other than the issuer were \$5,146.7 million. As of December 31, 2007, the indebtedness of our subsidiaries other than the issuer, excluding intercompany liabilities and obligations of a type not required to be reflected on a balance sheet in accordance with generally accepted accounting principles, that would effectively have been senior to the notes, was approximately \$1,926.0 million. We anticipate that from time to time our subsidiaries will incur additional debt and other liabilities. Any debt incurred by our subsidiaries other than the issuer will be structurally senior to the notes.

We have not agreed to any financial covenants in connection with the notes. Consequently, we are not required in connection with the notes to meet any financial tests, such as those that measure our working capital, interest coverage, fixed charge or net worth, in order to maintain compliance with the terms of the notes.

***Our ability to service our obligations under the notes depends on our ability to receive cash distributions from our operating subsidiaries. There can be no assurance that we will continue to receive such distributions or, if they are received, that they will be in amounts similar to past distributions.***

The issuer is our finance subsidiary and has no substantial assets. We have entered into a support agreement with the issuer pursuant to which we have agreed to pay to any debt investor or lenders of the issuer any principal or interest amounts owed by the issuer to such debt investor or lender that the issuer fails to pay on a timely basis. Because substantially all of our operations are conducted through our subsidiaries other than the issuer, the issuer will not be able to make interest and principal payments on the notes (and we will not be able to fulfill our obligations under the support agreement) unless we receive sufficient cash distributions from our operating subsidiaries and contribute such distributions to the issuer. The distributions received from our operating subsidiaries might not permit the issuer or us to make required payments of interest and principal under the notes or pursuant to the support agreement, as applicable, on a timely basis, or at all.

***If an active trading market does not develop for the new notes you may not be able to resell them.***

Currently, there is no public market for the new notes. If no active trading market develops, you may not be able to resell the new notes at their fair market value or at all. We do not intend to apply for listing of the new notes on any securities exchange or for quotation on any automated quotation system.

The liquidity of any market for the new notes will depend upon various factors, including:

the number of holders of the new notes;

the interest of securities dealers in making a market for the new notes;

our financial performance or prospects; and

the prospects for companies in our industry generally.

Accordingly, we cannot assure you that a market or liquidity will develop for the new notes.



**Table of Contents**

***If you fail to exchange your original notes, they will continue to be restricted securities and may become less liquid.***

Original notes that you do not tender or we do not accept will, following the exchange offer, continue to be restricted securities, and you may not offer to sell them except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We will issue new notes in exchange for the original notes pursuant to the exchange offer only following the satisfaction of the procedures and conditions set forth in *The Exchange Offer Procedures for Tendering*. Such procedures and conditions include timely receipt by the exchange agent of such original notes and of a properly completed and duly executed letter of transmittal. Because we anticipate that most holders of original notes will elect to exchange such original notes, we expect that the liquidity of the market for each series of the original notes remaining after the completion of the exchange offer will be substantially limited. Any original notes of a series tendered and exchanged in the exchange offer will reduce the aggregate principal amount at maturity of the original notes of that series outstanding. Following the exchange offer, if you did not tender your original notes you generally will not have any further registration rights, and such original notes will continue to be subject to certain transfer restrictions. Accordingly, the liquidity of the market for each series of original notes could be adversely affected.

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

RWE owns approximately 64% of our common stock. As a result, RWE is able to control the outcome on virtually all matters submitted to a vote of our stockholders, including the election of directors. So long as RWE continues to own a significant portion of the outstanding shares of our common stock, it will continue to be able to significantly influence the election of our directors, subject to compliance with applicable NYSE requirements, our decisions, policies, management and affairs and corporate actions requiring stockholder approval, including the approval of transactions involving a change in control. The interests of RWE and its affiliates may not coincide with the interests of our other stockholders or with your interests as a noteholder.

***We may not be able to repurchase the notes upon a change of control.***

Upon the occurrence of a change of control triggering event, the issuer will be required to offer to repurchase all outstanding notes at 101% of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the notes will be available cash, cash generated from our operating subsidiaries (other than the issuer) or other sources, including borrowings, sales of assets or sales of equity. The sources of cash may not be adequate to permit the issuer (or us, pursuant to our obligations under the support agreement) to repurchase the notes upon a change of control triggering event. The issuer's failure to offer to repurchase the notes, or to repurchase notes tendered following a change of control triggering event, will result in a default under the indenture governing the notes, which could lead to a cross-default under the terms of our existing and future indebtedness. For further information, see *Description of the Notes*.

**Table of Contents**

**USE OF PROCEEDS**

This exchange offer is intended to satisfy our obligations under the exchange and registration rights agreement entered into in connection with the issuance of the original notes. We will not receive any cash proceeds from the issuance of the new notes in the exchange offer. In consideration for issuing the new notes as contemplated by this prospectus, we will receive the original notes in like principal amount. The original notes surrendered and exchanged for the new notes will be retired and canceled and cannot be reissued. Accordingly, the issuance of the new notes will not result in any increase in our indebtedness or capital stock. We used the net proceeds from the issuance of the original notes to fund the repayment of \$1,286.0 million aggregate principal amount of RWE redemption notes and \$206.0 million (including after tax gains of \$2.2 million, net of \$1.4 million of tax) aggregate principal amount of RWE notes.



**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

American Water's and the issuer's ratio of earnings to fixed charges for each of the periods indicated is as follows:

For purposes of calculating the ratio of earnings to fixed charges, earnings consists of income (loss) from continuing operations before income taxes including the effect of allowance for funds used during construction, which we refer to as AFUDC, plus fixed charges. Fixed charges consist of interest expense, amortization of debt issuance costs, and a portion of rent expense that management believes is representative of the interest component of rental expense. Fixed charges have not been reduced for the effect of AFUDC.

The ratio of earnings to fixed charges was less than 1.00x for the periods indicated in the table below.

	For the Year Ended December 31,				
	2003	2004	2005	2006	2007
<b>American Water</b>					
Ratio of Earnings to Fixed Charges (1)	1.35	1.38			
Pro Forma Ratio of Earnings to Fixed Charges (2)					
<b>American Water Capital Corp.</b>					
Ratio of Earnings to Fixed Charges	1.00	1.00	1.00	1.00	1.00
Pro Forma Ratio of Earnings to Fixed Charges					1.00

- (1) For the years ended December 31, 2005, 2006 and 2007, earnings were insufficient to cover fixed charges and there were deficiencies of \$224.3 million, \$109.1 million and \$255.7 million, respectively.
- (2) On a pro forma basis after giving effect to the offering of notes, earnings would have been insufficient to cover fixed charges and there would have been a deficiency of \$256.8 million for the year ended December 31, 2007.

## **Table of Contents**

### **THE EXCHANGE OFFER**

#### **Purpose of the Exchange Offer**

In connection with the sale of the original notes, we entered into an exchange and registration rights agreement with the initial purchasers of the original notes, under which we agreed to file and to use our reasonable efforts to have declared effective an exchange offer registration statement under the Securities Act and to consummate an exchange offer.

We are making the exchange offer in reliance on the position of the SEC as set forth in certain no-action letters. However, we have not sought our own no-action letter. Based upon these interpretations by the SEC, we believe that a holder of new notes, but not a holder who is our affiliate within the meaning of Rule 405 of the Securities Act, who exchanges original notes for new notes in the exchange offer, generally may offer the new notes for resale, sell the new notes and otherwise transfer the new notes without further registration under the Securities Act and without delivery of a prospectus that satisfies the requirements of Section 10 of the Securities Act. This does not apply, however, to a holder who is our affiliate within the meaning of Rule 405 of the Securities Act. We also believe that a holder may offer, sell or transfer the new notes only if the holder acquires the new notes in the ordinary course of its business and is not participating, does not intend to participate and has no arrangement or understanding with any person to participate in a distribution of the new notes.

Any holder of the original notes using the exchange offer to participate in a distribution of new notes cannot rely on the no-action letters referred to above. A broker-dealer that acquired original notes directly from us, but not as a result of market-making activities or other trading activities, must comply with the registration and prospectus delivery requirements of the Securities Act in the absence of an exemption from such requirements.

Each broker-dealer that receives new notes for its own account in exchange for original notes, as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for original notes where such original notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. The letter of transmittal states that by so acknowledging and delivering a prospectus, a broker-dealer will not be considered to admit that it is an underwriter within the meaning of the Securities Act. We have agreed that starting on the expiration date and for a period ending upon the earlier of the 180th day after the expiration of this exchange offer or such time as such broker-dealers no longer own any original notes, we will make this prospectus available to broker-dealers for use in connection with any such resale. See Plan of Distribution .

Except as described above, this prospectus may not be used for an offer to resell, resale or other transfer of new notes.

The exchange offer is not being made to, nor will we accept tenders for exchange from, holders of original notes in any jurisdiction in which the exchange offer or the acceptance of tenders would not be in compliance with the securities or blue sky laws of such jurisdiction.

#### **Terms of the Exchange**

Upon the terms and subject to the conditions of the exchange offer, we will accept any and all original notes validly tendered prior to 5:00 p.m., New York City time, on the expiration date for the exchange offer. The date of acceptance for exchange of the original notes, and completion of the exchange offer, is the exchange date, which will be the first business day following the expiration date (unless extended as described in this prospectus). We will issue, on or promptly after the exchange date, an aggregate principal amount of (i) up to \$750,000,000 of the new 2017 notes for a like principal amount of the outstanding original 2017 notes tendered and accepted in connection with the exchange offer and (ii) up to \$750,000,000 of the new 2037 notes for a like principal amount of the outstanding original 2037 notes tendered and accepted in connection with the exchange offer. The new notes issued in connection with the exchange offer will be delivered on the earliest practicable

---

**Table of Contents**

date following the exchange date. Holders may tender some or all of their original notes in connection with the exchange offer, but only in principal amounts of \$2,000 or in integral multiples of \$1,000 principal amount in excess thereof.

The terms of the new notes will be identical in all material respects to the terms of the respective original notes, except that the new notes will have been registered under the Securities Act and are issued free from any covenant regarding registration, including the payment of additional interest upon a failure to file or have declared effective an exchange offer registration statement or to complete the exchange offer by certain dates. The new notes will evidence the same debt as the original notes and will be issued under the same indenture and entitled to the same benefits under that indenture as the original notes being exchanged. As of the date of this prospectus, \$1,500.0 million in aggregate principal amount of the original notes are outstanding, consisting of (i) \$750,000,000 aggregate principal amount of the original 2017 notes and (ii) \$750,000,000 aggregate principal amount of the original 2037 notes.

In connection with the issuance of the original notes, we have arranged for the original notes originally purchased by qualified institutional buyers and those sold in reliance on Regulation S under the Securities Act to be issued and transferable in book-entry form through the facilities of The Depository Trust Company, which we refer to as DTC, acting as depository. The new notes will be issued in the form of global notes registered in the name of DTC or its nominee and each beneficial owner's interest in it will be transferable in book-entry form through DTC.

Holders of original notes do not have any appraisal or dissenters' rights in connection with the exchange offer. Original notes that are not tendered for exchange or are tendered but not accepted in connection with the exchange offer will remain outstanding and be entitled to the benefits of the indenture under which they were issued, but, subject to certain limited exceptions, will not be entitled to any registration rights under the exchange and registration rights agreement. See Consequences of Failures to Properly Tender Original Notes in the Exchange Offer .

We shall be considered to have accepted validly tendered original notes if and when we have given oral or written notice to the exchange agent. The exchange agent will act as agent for the tendering holders for the purposes of receiving the new notes from us.

If any tendered original notes are not accepted for exchange because of an invalid tender, the occurrence of certain other events described in this prospectus or otherwise, we will return the original notes, without expense, to the tendering holder as quickly as possible after the expiration date.

Holders who tender original notes will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes on exchange of original notes in connection with the exchange offer. We will pay all charges and expenses, other than certain applicable taxes described below, in connection with the exchange offer. See Fees and Expenses .

**Expiration Date; Extensions; Amendments**

The expiration date for the exchange offer is 5:00 p.m., New York City time, on June 11, 2008, unless extended by us in our sole discretion (but in no event to a date later than June 26, 2008), in which case the term expiration date shall mean the latest date and time to which the exchange offer is extended.

We reserve the right, in our sole discretion:

to delay accepting any original notes, to extend the offer or to terminate the exchange offer if, in our reasonable judgment, any of the conditions described below shall not have been satisfied, by giving oral or written notice of the delay, extension or termination to the exchange agent; or

to amend the terms of the exchange offer in any manner.

## **Table of Contents**

If we amend the exchange offer in a manner that we consider material, we will disclose such amendment by means of a prospectus supplement, and, if necessary, we will extend the exchange offer for a period of five to ten business days after disclosure of such a material change.

If we determine to make a public announcement of any delay, extension, amendment or termination of the exchange offer, we will do so by making a timely release through an appropriate news agency.

If we delay accepting any original notes or terminate the exchange offer, we promptly will pay the consideration offered, or return any original notes deposited, pursuant to the exchange offer as required by Rule 14e-1(c) under the Exchange Act.

## **Interest on the New Notes**

Interest on the new 2017 notes will accrue at a per annum rate of 6.085% from the most recent date to which interest on the original 2017 notes has been paid or, if no interest has been paid, from October 22, 2007. Interest on the new 2037 notes will accrue at a per annum rate of 6.593% from the most recent date to which interest on the original 2037 notes has been paid or, if no interest has been paid, from October 22, 2007.

Interest on the new notes will be paid semiannually to holders of record at the close of business on April 1 and October 1 immediately preceding the interest payment date on April 15 and October 15 of each year, commencing on April 15, 2008 or, if the exchange offer is not consummated by such date, October 15, 2008.

## **Conditions to the Exchange Offer**

Notwithstanding any other term of the exchange offer, we will not be required to accept for exchange, or exchange new notes for, any original notes and may terminate the exchange offer as provided in this prospectus before the acceptance of the original notes, if prior to the expiration date:

any action or proceeding is instituted or threatened in any court or by or before any governmental agency relating to the exchange offer which, in our reasonable judgment, might materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us, or any material adverse development has occurred in any existing action or proceeding relating to us or any of our subsidiaries;

any change, or any development involving a prospective change, in our business or financial affairs or any of our subsidiaries has occurred which, in our reasonable judgment, might materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us;

any law, statute, rule or regulation is proposed, adopted or enacted, which in our reasonable judgment, might materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us; or

any governmental or regulatory approval has not been obtained, which approval we, in our reasonable discretion, consider necessary for the completion of the exchange offer as contemplated by this prospectus.

The conditions listed above are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any of these conditions. We may waive these conditions in our reasonable discretion in whole or in part at any time and from time to time prior to the expiration date. The failure by us at any time to exercise any of the above rights shall not be considered a waiver of such right, and such right shall be considered an ongoing right which may be asserted at any time and from time to time.

## **Table of Contents**

If we determine in our reasonable discretion that any of the conditions are not satisfied, we may:

refuse to accept any original notes and return all tendered original notes to the tendering holders;

extend the exchange offer and retain all original notes tendered before the expiration of the exchange offer, subject, however, to the rights of holders to withdraw these original notes (see [Withdrawal of Tenders](#) below); or

waive unsatisfied conditions relating to the exchange offer and accept all properly tendered original notes which have not been withdrawn.

### **Procedures for Tendering**

Unless the tender is being made in book-entry form, to tender in the exchange offer, a holder must:

complete, sign and date the letter of transmittal, or a facsimile of it;

have the signatures guaranteed if required by the letter of transmittal; and

mail or otherwise deliver the letter of transmittal or the facsimile, the original notes and any other required documents to the exchange agent prior to 5:00 p.m., New York City time, on the expiration date.

Any financial institution that is a participant in DTC's Book-Entry Transfer Facility system may make book-entry delivery of the original notes by causing DTC to transfer the original notes into the exchange agent's account. To validly tender original notes through DTC, the financial institution that is a participant in DTC will electronically transmit its acceptance through the Automated Tender Offer Program. DTC will then verify the acceptance, execute a book-entry transfer of the tendered original notes into the applicable account of the exchange agent at DTC and then send to the exchange agent confirmation of such book-entry transfer. The confirmation of such book-entry transfer will include an agent's message stating that DTC has received an express acknowledgment from the participant in DTC tendering the original notes that the participant has received and agrees to be bound by the terms of the letter of transmittal and that we may enforce the terms of the letter of transmittal against the participant. A tender of original notes through a book-entry transfer into the exchange agent's account will only be effective if an agent's message or letter of transmittal (or facsimile), with any required signature guarantees and any other required documents are transmitted to and received or confirmed by the exchange agent at its address set forth under the caption [Exchange Agent](#) below, prior to 5:00 p.m., New York City time, on the expiration date. Delivery of documents to DTC in accordance with its procedures does not constitute delivery to the exchange agent.

The tender by a holder of original notes will constitute an agreement between us and the holder in accordance with the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal.

The method of delivery of original notes and the letter of transmittal and all other required documents to the exchange agent is at the election and risk of the holders. Instead of delivery by mail, we recommend that holders use an overnight or hand delivery service. In all cases, holders should allow sufficient time to assure delivery to the exchange agent before the expiration date. No letter of transmittal of original notes should be sent to us. Holders may request their respective brokers, dealers, commercial banks, trust companies or nominees to effect the tenders for such holders.

Any beneficial owner whose original notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact the registered holder promptly and instruct such registered holder to tender on behalf of the beneficial owner. If the beneficial owner wishes to tender on that owner's own behalf, the beneficial owner must, prior to completing and executing the letter of transmittal and delivering such beneficial owner's original notes, either make appropriate arrangements to register ownership of the original notes in such beneficial owner's name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.



**Table of Contents**

Signatures on letters of transmittal or notices of withdrawal must be guaranteed by an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act, unless the original notes tendered pursuant thereto are tendered:

by a registered holder who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal; or

for the account of an eligible guarantor institution.

In the event that a signature on a letter or transmittal or a notice of withdrawal is required to be guaranteed, such guarantee must be by:

a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority;

a commercial bank or trust company having an office or correspondent in the United States; or

an eligible guarantor institution .

If the letter of transmittal is signed by a person other than the registered holder of any original notes, the original notes must be endorsed by the registered holder or accompanied by a properly completed bond power, in each case signed or endorsed in blank by the registered holder.

If the letter of transmittal or any original notes or bond powers are signed or endorsed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing and, unless waived by us, submit evidence satisfactory to us of their authority to act in that capacity with the letter of transmittal.

We will determine all questions as to the validity, form, eligibility (including time of receipt) and acceptance and withdrawal of tendered original notes in our sole discretion. We reserve the absolute right to reject any and all original notes not properly tendered or any original notes whose acceptance by us would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tender as to any particular original notes either before or after the expiration date. Our interpretation of the terms and conditions of the exchange offer (including the instructions in the letter of transmittal) will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of original notes must be cured within a time period we will determine. Although we intend to request the exchange agent to notify holders of defects or irregularities relating to tenders of original notes, neither we, the exchange agent nor any other person will have any duty or incur any liability for failure to give such notification. Tendere of original notes will not be considered to have been made until such defects or irregularities have been cured or waived. Any original notes received by the exchange agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned by the exchange agent to the tendering holders, unless otherwise provided in the letter of transmittal, as soon as practicable following the expiration date.

In addition, we reserve the right, as set forth above under the caption Conditions to the Exchange Offer , to terminate the exchange offer.

By tendering, each holder represents to us, among other things, that:

the new notes acquired in connection with the exchange offer are being obtained in the ordinary course of business of the person receiving the new notes, whether or not such person is the holder;

neither the holder nor any such other person has an arrangement or understanding with any person to participate in the distribution of such new notes; and

Edgar Filing: American Water Capital Corp. - Form 424B3

neither the holder nor any such other person is our affiliate (as defined in Rule 405 under the Securities Act).



## **Table of Contents**

If the holder is a broker-dealer which will receive new notes for its own account in exchange for original notes, it will acknowledge that it acquired such original notes as the result of market-making activities or other trading activities and it will deliver a prospectus in connection with any resale of such new notes. See Plan of Distribution .

### **Guaranteed Delivery Procedures**

A holder who wishes to tender its original notes and:

whose original notes are not immediately available;

who cannot deliver the holder's original notes, the letter of transmittal or any other required documents to the exchange agent prior to the expiration date; or

who cannot complete the procedures for book-entry transfer before the expiration date;  
may effect a tender if

the tender is made through an eligible guarantor institution;

before the expiration date, the exchange agent receives from the eligible guarantor institution:

- (i) a properly completed and duly executed notice of guaranteed delivery by facsimile transmission, mail or hand delivery,
- (ii) the name and address of the holder, and
- (iii) the certificate number(s) of the original notes and the principal amount of original notes tendered, stating that the tender is being made and guaranteeing that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal and the certificate(s) representing the original notes (or a confirmation of book-entry transfer), and any other documents required by the letter of transmittal will be deposited by the eligible guarantor institution with the exchange agent; and

the exchange agent receives, within three New York Stock Exchange trading days after the expiration date, a properly completed and executed letter of transmittal or facsimile, as well as the certificate(s) representing all tendered original notes in proper form for transfer or a confirmation of book-entry transfer, and all other documents required by the letter of transmittal.

### **Withdrawal of Tenders**

Except as otherwise provided herein, tenders of original notes may be withdrawn at any time prior to 5:00 p.m., New York City time, on the expiration date.

To withdraw a tender of original notes in connection with the exchange offer, a written or facsimile transmission notice of withdrawal must be received by the exchange agent at its address set forth herein prior to 5:00 p.m., New York City time, on the expiration date. Any such notice of withdrawal must:

## Edgar Filing: American Water Capital Corp. - Form 424B3

specify the name of the person who deposited the original notes to be withdrawn;

identify the original notes to be withdrawn (including the certificate number(s) and principal amount of such original notes);

be signed by the depositor in the same manner as the original signature on the letter of transmittal by which such original notes were tendered (including any required signature guarantees) or be accompanied by documents of transfer sufficient to have the Trustee register the transfer of such original notes into the name of the person withdrawing the tender; and

specify the name in which any such original notes are to be registered, if different from that of the depositor.

## **Table of Contents**

We will determine all questions as to the validity, form and eligibility (including time of receipt) of such notices of withdrawal. Any original notes so withdrawn will be considered not to have been validly tendered for purposes of the exchange offer, and no new notes will be issued unless the original notes withdrawn are validly re-tendered. Any original notes which have been tendered but which are not accepted for exchange or which are withdrawn will be returned to the holder without cost to such holder as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn original notes may be re-tendered by following one of the procedures described above under the caption "Procedures for Tendering" at any time prior to the expiration date.

## **Exchange Agent**

Wells Fargo Bank, National Association has been appointed as exchange agent in connection with the exchange offer. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal should be directed to the exchange agent by registered or certified mail to Wells Fargo Bank, N.A., Corporate Trust Operations, MAC N9303-121, P.O. Box 1517, Minneapolis, MN 55480, by overnight courier or regular mail to Wells Fargo Bank, N.A., Corporate Trust Operations, MAC N9303-121, 6th & Marquette Avenue, Minneapolis, MN 55479 or by hand delivery to Wells Fargo Bank, N.A., Corporate Trust Services, 608 2nd Avenue South, Northstar East Building-12th Floor, Minneapolis, MN 55402. The exchange agent's telephone number is (800) 344-5128 and facsimile number is (612) 667-6282.

## **Fees and Expenses**

We will not make any payment to brokers, dealers or others soliciting acceptances of the exchange offer. We will pay certain other expenses to be incurred in connection with the exchange offer, including the fees and expenses of the exchange agent and certain accounting and legal fees.

Holders who tender their original notes for exchange will not be obligated to pay transfer taxes. However, if:

new notes are to be delivered to, or issued in the name of, any person other than the registered holder of the original notes tendered; or

tendered original notes are registered in the name of any person other than the person signing the letter of transmittal; or

a transfer tax is imposed for any reason other than the exchange of original notes in connection with the exchange offer; then the amount of any such transfer taxes (whether imposed on the registered holder or any other person) will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption from them is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed directly to the tendering holder.

## **Accounting Treatment**

The new notes will be recorded at the same carrying value as the original notes as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes upon the completion of the exchange offer. The expenses of the exchange offer that we pay will increase our deferred financing costs in accordance with generally accepted accounting principles.

## **Consequences of Failures to Properly Tender Original Notes in the Exchange Offer**

Issuance of the new notes in exchange for the original notes in the exchange offer will be made only after timely receipt by the exchange agent of such original notes, a properly completed and duly executed letter of transmittal and all other required documents. Therefore, holders of the original notes desiring to tender such

**Table of Contents**

original notes in exchange for new notes should allow sufficient time to ensure timely delivery. We are under no duty to give notification of defects or irregularities of tenders of original notes for exchange. Original notes that are not tendered or that are tendered but not accepted by us will, following completion of the exchange offer, continue to be subject to the existing restrictions upon transfer thereof under the Securities Act, and, upon completion of the exchange offer, certain registration rights under the exchange and registration rights agreement will terminate. In the event the exchange offer is completed, other than in limited circumstances, we will not be required to register the remaining original notes. Remaining original notes will continue to be subject to the following restrictions on transfer:

the remaining original notes may be resold only (i) if registered pursuant to the Securities Act, (ii) if an exemption from registration is available, or (iii) if neither such registration nor such exemption is required by law; and

the remaining original notes will bear a legend restricting transfer in the absence of registration or an exemption.

We do not currently anticipate that we will register the remaining original notes under the Securities Act. To the extent that original notes are tendered and accepted in connection with the exchange offer, any trading market for remaining original notes could be adversely affected. See **Risk Factors** **Risks Relating to the Notes and the Exchange Offer** If you fail to exchange your original notes, they will continue to be restricted securities and may become less liquid .

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The following unaudited pro forma condensed consolidated financial information have been developed by applying pro forma adjustments to the historical audited consolidated financial statements of American Water appearing elsewhere in this prospectus. See the explanatory note to the unaudited pro forma condensed consolidated financial statements. The unaudited pro forma condensed consolidated statements of operations give effect to the Transactions as if they had occurred on January 1, 2007. The unaudited pro forma condensed consolidated balance sheet gives effect to the adjustment of restricted stock units from liability classified awards to equity classified awards as a result of the initial public offering as if it had occurred on December 31, 2007. The Transactions consist of the following:

The Merger, comprising:

The merger of Thames US Holdings into American Water with American Water being the surviving entity.

The Refinancing, comprising:

The non-cash equity contribution to the Company by RWE of \$100.0 million of debt of our subsidiaries held by RWE on March 29, 2007 and the \$550.0 million cash equity contribution to the Company by RWE on March 29, 2007, which was used to pay down \$232.5 million of short-term debt and the remainder used for general working capital purposes;

The \$1,750.0 million issuance of RWE redemption notes on September 20, 2007, which was used to fund the early redemption of \$1,750.0 million of preferred stock held by RWE;

The issuance of \$1,500.0 million aggregate principal amount of new senior notes, less issuance costs of \$11.7 million on October 22, 2007, which resulted in the repayment of \$1,286.0 million aggregate principal amount of RWE redemption notes and \$206.0 million of RWE notes;

The \$8.6 million gain (after tax gains of \$5.2 million, net of \$3.4 million of tax) on early repayment of RWE notes;

The issuance of \$415.0 million of commercial paper to fund the partial repayment of \$464.0 million of RWE redemption notes with the balance of \$49.0 million of the RWE redemption notes repaid with excess cash; and

The cash equity contribution to the Company by RWE of \$266.0 million on December 21, 2007, which was used to pay down commercial paper.

The 160,000-for-1 split of common stock effected on November 7, 2007.

The initial public offering of 58,000,000 shares of our common stock, consummated on April 28, 2008.

The unaudited pro forma condensed consolidated statement of operations adjustments and financial information do not include the \$150.0 million equity contribution from RWE on September 27, 2007.

## Edgar Filing: American Water Capital Corp. - Form 424B3

The Company paid approximately \$3.0 million in completion bonuses related to the initial public offering to various key members of management. As of December 31, 2007, approximately \$2.6 million has been accrued as a portion of the completion bonuses are not contingent on the successful completion of the initial public offering and may be paid as cash bonuses. The unaccrued portion of the completion bonuses has not been reflected in the unaudited pro forma condensed consolidated financial information.

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

The unaudited pro forma adjustments and financial information:

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

are presented for informational purposes only;

**Table of Contents**

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

do not purport to project our results of operations or financial condition for any future period or as of any future date. The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the information contained in Use of Proceeds, Selected Historical Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto appearing elsewhere in this prospectus. All pro forma adjustments and their underlying assumptions are described more fully in the notes to our unaudited pro forma condensed consolidated financial statements.

**Table of Contents****American Water Works Company, Inc. and Subsidiary Companies****Unaudited Pro Forma Condensed Consolidated Statement of Operations****For the Year Ended December 31, 2007**

	Historical	Pro forma adjustments	Pro forma
	(In thousands except per share data)		
Operating revenues	\$ 2,214,215	\$	\$ 2,214,215
Operating expenses			
Operation and maintenance	1,246,479	2,540(A)	1,249,019
Depreciation and amortization	267,335		267,335
General taxes	183,253		183,253
Loss (gain) on sale of assets	(7,326)		(7,326)
Impairment charges	509,345		509,345
Total operating expenses, net	2,199,086	2,540	2,201,626
Operating income (loss)	15,129	(2,540)	12,589
Other income (deductions)			
Interest	(283,165)	(1,705)(B) 4,116 (C) (478)(D)	(281,232)
Amortization of debt expense	(4,867)	(544)(B)	(5,411)
Other, net	17,384		17,384
Total other income (deductions)	(270,648)	1,389	(269,259)
Income (loss) from continuing operations before income taxes	(255,519)	(1,151)	(256,670)
Provision for income taxes	86,756	(455)(E)	86,301
Income (loss) from continuing operations	\$ (342,275)	\$ (696)	\$ (342,971)
Unaudited pro forma earnings per share:			
Basic	\$ (2.14)		\$ (2.14)
Diluted	\$ (2.14)		\$ (2.14)
Weighted average shares used in calculating earnings per share:			
Basic	160,000	(F)	160,000
Diluted	160,000	(G)	160,000

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



**Table of Contents****American Water Works Company, Inc. and Subsidiary Companies****Unaudited Pro Forma Condensed Consolidated Balance Sheet****December 31, 2007**

	Historical	Pro forma adjustments	Pro forma
	(in thousands, except per share data)		
<b>ASSETS</b>			
Property, plant and equipment			
Utility plant at original cost, net of accumulated depreciation	\$ 9,199,909	\$	\$ 9,199,909
Nonutility property, net of accumulated depreciation	118,052		118,052
<b>Total property, plant and equipment</b>	<b>9,317,961</b>		<b>9,317,961</b>
Current assets			
Cash and cash equivalents	13,481		13,481
Other current assets	416,873		416,873
<b>Total current assets</b>	<b>430,354</b>		<b>430,354</b>
Regulatory and other long-term assets			
Goodwill	2,456,952		2,456,952
Other regulatory and other long-term assets	728,805		728,805
<b>Total regulatory and other long-term assets</b>	<b>3,185,757</b>		<b>3,185,757</b>
<b>TOTAL ASSETS</b>	<b>\$ 12,934,072</b>	<b>\$</b>	<b>\$ 12,934,072</b>
<b>CAPITALIZATION &amp; LIABILITIES</b>			
Capitalization			
Common stockholders' equity	\$ 4,542,046	\$ 680(H)	\$ 4,542,726
Preferred stock without mandatory redemption requirements	4,568		4,568
Long-term debt			
Long-term debt	4,674,837		4,674,837
Redeemable preferred stock at redemption value	24,296		24,296
<b>Total capitalization</b>	<b>9,245,747</b>	<b>680</b>	<b>9,246,427</b>
Current liabilities			
Short-term debt and current portion of long-term debt	316,969		316,969
Other current liabilities	457,520		457,520
<b>Total current liabilities</b>	<b>774,489</b>		<b>774,489</b>
<b>Total regulatory and other long-term liabilities</b>	<b>2,095,449</b>	<b>(680)(H)</b>	<b>2,094,769</b>
Contributions in aid of construction	818,387		818,387
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 12,934,072</b>	<b>\$</b>	<b>\$ 12,934,072</b>

Edgar Filing: American Water Capital Corp. - Form 424B3

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

**Table of Contents****American Water Works Company, Inc. and Subsidiary Companies****Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements**

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

- (A) Reflects the granting of 843,869 unvested stock options, 107,025 restricted stock units and 89,921 restricted stock awards to our employees in connection with the initial public offering. The awards were issued under the American Water 2007 Omnibus Equity Compensation Plan and will be recorded as equity awards. The restricted stock units and stock options vest over a 3-year period commencing January 1, 2007 and 566,562 unvested stock options and 71,852 restricted stock units are expected to vest over the three-year period based on our assessment of the probability of achieving performance conditions. The 89,921 restricted stock awards vest over a 3-month period commencing with the pricing of the initial public offering and 89,921 of the awards are expected to vest over the 3-month period. The grant date value of the stock options at issuance was \$4.09 using the following assumptions in a Black-Scholes model: \$21.50 Exercise Price, 52 1/2 month Expected Term, 2.87% Discount Rate, 29% Volatility, 3.72% Dividend Yield.
- (B) The sources and uses of funds in connection with the Refinancing and the related impact on interest expense related to the Transactions are summarized below, which are defined and further discussed elsewhere in this prospectus.

	Principal	Rate	Interest expense 12 months (In thousands)	Debt expense amortization 12 months
<b>SOURCES:</b>				
RWE redemption notes(1)	\$ 1,750,000	5.72%	100,122	
Original notes(1)	1,500,000	6.34%	77,124	
Commercial paper(1)	415,000	5.31%	22,036	
RWE cash equity contribution(1)	266,000			
Excess cash	49,026			
<b>Total</b>	<b>\$ 3,980,026</b>		<b>\$ 199,282</b>	
<b>USES:</b>				
Redeemable preferred stock(1)	\$ 1,750,000		\$ (74,569)	
RWE redemption notes(1)	1,750,000		(100,122)	
RWE notes(1)	202,370		(9,154)	
Commercial paper(1)	266,000		(13,732)	
Financing costs	11,656			\$ 544
<b>Total</b>	<b>\$ 3,980,026</b>		<b>(197,577)</b>	<b>544</b>
<b>Net increase (decrease)</b>			<b>\$ (1,705)</b>	<b>\$ 544</b>

- (1) The issuance of \$1,750.0 million of RWE redemption notes on September 20, 2007 was used to fund the early redemption of \$1,750.0 million of preferred stock held by RWE. The RWE redemption notes were repaid early with \$1,286.0 million of the proceeds of the original notes, \$415.0 million of commercial paper and \$49.0 million of excess cash. \$202.4 million of the proceeds of the original notes were used to fund the repayment of \$206.0 million (including after tax gains of \$2.2 million, net of \$1.4 million of tax) of RWE notes. The cash equity contribution to the Company by RWE of \$266.0 million on December 21, 2007 was used to

## Edgar Filing: American Water Capital Corp. - Form 424B3

pay down commercial paper.

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

**Table of Contents**

The resulting reduction in interest expense is computed as follows:

	RWE Notes	Commercial Paper (In thousands)	Total
Principal redemption	\$ 100,000	\$ 232,500	
Calculated effective rate	4.00%	5.44%	
Reduction in interest expense for the year ended December 31, 2007	\$ 989	\$ 3,127(1)	\$ 4,116

- (1) Reflects actual interest accrued from January 1, 2007 to March 27, 2007.
- (D) Reflects the amortization of the \$8.6 million gain on the early extinguishment of RWE notes, which was recorded as a long term regulatory liability, over the lives of the debt tranches that were repaid.
- (E) Represents the reduction in income tax expense resulting from the Transactions at the estimated blended tax rate of 39.6%.
- (F) The number of common shares used to compute pro forma basic earnings per common share is 160.0 million, which is the number of shares of our common stock assumed to be outstanding upon the consummation of the initial public offering.
- (G) The number of shares used to compute pro forma diluted earnings per share is based on the number of shares of our common stock described in (F) above, plus the potential dilution that could occur if options and restricted stock units granted under the American Water 2007 Omnibus Equity Compensation Plan were exercised or converted into common stock. There are no dilutive incremental common shares included in the calculation of pro forma diluted earnings per share as the potentially dilutive instruments would be antidilutive.
- (H) Reflects the adjustment of the restricted stock units from liability-classified awards to equity-classified awards as of the completion of the initial public offering resulting in a reclassification of \$0.7 million of current liabilities to additional paid-in capital.

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table presents our selected historical consolidated financial data at the dates and for the periods indicated. The statements of operations data for the years ended December 31, 2005, 2006 and 2007 and the balance sheet data as of December 31, 2006 and 2007 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The historical financial data as of December 31, 2005 have been derived from our audited consolidated financial statements not included in this prospectus. The statement of operations for the years ended December 31, 2003 and 2004, and the financial data as of December 31, 2003 and 2004 have been derived from our historical financial statements, in each case, which are not included in this prospectus.

Our historical consolidated financial data are not necessarily indicative of our future performance or what our financial position and results of operations would have been if we had operated as a separate, stand-alone entity during the periods shown. This financial data should be read in conjunction with, and is qualified in its entirety by reference to, the information in the section in this prospectus entitled "Use of Proceeds",

Unaudited Pro Forma Condensed Consolidated Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	<b>For the years ended December 31,</b>				
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(unaudited)</b>				
	<b>(in thousands, except per share data)</b>				
<b>Statement of operations data(1):</b>					
Operating revenues	\$ 1,890,291	\$ 2,017,871	\$ 2,136,746	\$ 2,093,067	\$ 2,214,215
<b>Operating expenses</b>					
Operation and maintenance	1,089,071	1,121,970	1,201,566	1,174,544	1,246,479
Depreciation and amortization	210,588	225,260	261,364	259,181	267,335
General taxes	164,677	170,165	183,324	185,065	183,253
Loss (gain) on sale of assets(2)	(16,771)				