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mes New Roman" SIZE="2"> 1,286 3.7%

Rents

22,543 21,985 558 2.5%

Other

49,081 63,892 (14,811) (23.2)%

Total

$283,230 $293,475 ($10,245) (3.5)%

Contracted services increased in 2008 compared to the same period in 2007. This increase was primarily due to higher contracted services in our Contract Operations group in 2008 as compared to 2007, associated with several operating contracts (including a DBO project in Fillmore, California). Offsetting this increase were lower consulting fees associated with our remediation efforts to comply with Sarbanes-Oxley Act of 2002. These costs decreased by $22.6 million to $9.4 million in 2008 from $32.0 million in 2007. The increase in transportation costs is primarily the result of higher diesel and gasoline prices in 2008. Other operating supplies and services were lower in 2008 as 2007 costs were higher due to a write-off of certain deferred costs totaling $1.1 million by our New Jersey subsidiary as they were no longer deemed recoverable. Additionally, our Non-Regulated Businesses recorded loss contingencies of $3.6 million in 2007. Other decreases are associated with the cost of materials primarily related to our Contract Operations Group, due to changes in project work performed.

Maintenance materials and services, which include emergency repairs as well as costs for preventive maintenance, increased $8.3 million, or by 6.5%, for 2008 compared to 2007.

	For the Years Ended December 31,			
	2008	2007	Increase (Decrease)	Percentage
	(in thousands)			
Maintenance services and supplies	$ 94,790	$ 92,041	$ 2,749	3.0%
Removal costs, net	41,515	35,975	5,540	15.4%
Total	$ 136,305	$ 128,016	$ 8,289	6.5%

Our Regulated Businesses maintenance materials and service costs increased by $6.8 million in 2008 mainly due to increased costs of $1.7 million associated with a program in Illinois to maintain valves and fire

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hydrants, and higher cost of removal expenses of $5.5 million in certain of our operating companies, partially offset by lower paving costs of $1.4 million in our New Jersey and Missouri operating companies. The Non-Regulated Businesses maintenance and services expenses increased by $1.7 million as a result of higher frequency of claims, primarily resulting from the increase in the number of customer contracts, with the service line protection program in our Homeowner Services Group, as well as from increased costs associated with the Contract Operations Group mainly due to costs associated with new military operations and maintenance projects.

Customer billing and accounting expenses increased by $5.8 million, or 15.0%, for 2008 compared to 2007.

	For the Years Ended December 31,			
	2008	2007	Increase (Decrease)	Percentage
	(in thousands)			
Uncollectible accounts expense	$ 20,298	$ 16,445	$ 3,853	23.4%
Postage	11,829	10,932	897	8.2%
Other	11,885	10,879	1,006	9.2%
Total	$ 44,012	$ 38,256	$ 5,756	15.0%

The increase was primarily the result of higher uncollectible accounts expense in our Regulated Businesses of $0.6 million and in our Non-Regulated Businesses of $3.7 million primarily due to increased uncollectible expense in the Applied Water Management Group of $1.8 million primarily due to the collection of $1.2 million in 2007 for an amount that was previously written-off as well as higher uncollectible expense in our Contract Operation Group. In addition, postage expense increased in our Regulated subsidiaries $0.9 million compared to 2007.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs increased by $0.8 million, or 1.8%, for 2008 compared to 2007.

	For the Years Ended December 31,			
	2008	2007	Increase (Decrease)	Percentage
	(in thousands)			
Insurance	$ 33,173	$ 37,276	($ 4,103)	(11.0)%
Regulatory expenses	12,957	8,029	4,928	61.4%
Total	$ 46,130	$ 45,305	$ 825	1.8%

Insurance expense decreased due to more favorable claims experience in 2008 compared to 2007. Regulatory expenses increased primarily due to write-offs of deferred rate case expenses, primarily in Tennessee, Illinois, California, and Ohio as well as increased rate case amortization costs associated with rate cases settled in 2007.

Depreciation and amortization. Depreciation and amortization expense increased by $3.9 million, or 1.5%, for 2008 compared to 2007. This increase was primarily due to additional assets placed in service, mainly in our Regulated Businesses, over the last year.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts, and other miscellaneous items, increased by $15.9 million, or 8.7%, in 2008 compared to 2007. This increase is primarily due to increased gross receipts taxes of $7.9 million primarily in New Jersey and Missouri and higher property tax expense of $4.2 million primarily in Ohio and Missouri. Additionally, payroll taxes increased by $2.7 million, due to increased salaries and wages and higher payroll tax limits.

Gain on sale of assets. The gain on sale of assets was $0.4 million for 2008 compared to a gain of $7.3 million for 2007. The gains in 2008 and 2007 are primarily attributable to non-recurring sales of assets no longer used in our operations.

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Impairment charge. The impairment charge was $750.0 million for 2008 compared to $509.3 million for 2007. The 2008 impairment charge was primarily due to the market price of the Company s common stock (both the initial public offering price and the price during subsequent trading) being less than what was anticipated during our 2007 annual test. Also contributing to the impairment was a decline in the fair value of the Company s debt (due to increased interest rates). The 2007 impairment charge to goodwill to our Regulated Businesses was primarily due to slightly lower long-term earnings forecast caused by our updated customer demand and usage expectations and expectations for timing of capital expenditures and rate recovery. See Factors Affecting Our Results of Operations Goodwill Impairment.

Other income (deductions). Interest expense, net of interest income, the primary component of our other income (deductions), increased by $2.0 million, or 0.7%, for 2008 compared to 2007. The increase is primarily due to increased borrowings associated with capital expenditures. Offsetting the change in interest expense is an increase in AFUDC of $11.5 million for 2008 compared to 2007 as a result of increased construction activity in 2008 over 2007. Amortization of debt expense increased $1.0 million for 2008 compared to 2007 as a result of debt restructuring. Other items contributing to the change include lower miscellaneous income for 2008 compared to 2007 primarily as a result our Indiana subsidiary now accounting for certain income in operating revenues in accordance with a 2007 rate order.

Provision for income taxes. Our consolidated provision for income taxes increased $25.0 million, or 28.8%, to $111.8 million for 2008 from $86.8 million for 2007.

Net income (loss). The net loss for 2008 was $562.4 million compared to a net loss of $342.8 million for 2007. The variation between the periods is the result of the aforementioned changes.

Liquidity and Capital Resources

We regularly evaluate cash requirements for current operations, commitments, development activities and capital expenditures. Our business is very capital intensive and requires significant capital resources. A portion of these capital resources are provided by internally generated cash flows from operations. When necessary, we obtain additional funds from external sources in the debt and capital markets and through bank borrowings. Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to revolving credit facilities with aggregate bank commitments of $850.0 million. We rely on these revolving credit facilities and the capital markets to fulfill our short-term liquidity needs, to issue letters of credit and to back our commercial paper program. Disruptions in the credit markets may discourage lenders from meeting their existing lending commitments, extending the terms of such commitments or agreeing to new commitments. Market disruptions may also limit our ability to issue debt securities in the capital markets. On September 15, 2008, we sought to issue commercial paper but were unable to consummate the issuance due to adverse market conditions. In order to meet our short-term liquidity needs we borrowed under our then existing $850 million revolving credit facilities. See Credit Facilities and Short-Term Debt.

AWCC had no outstanding borrowings and $50.6 million of outstanding letters of credit under its credit facilities as of December 31, 2009. As of December 31, 2009, AWCC had $799.4 million available under its credit facilities. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

In addition, our regulated operating companies receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods, which vary according to state regulations, as new customers begin to receive service or other contractual obligations are fulfilled. Amounts which are no longer refundable

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are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from the rate base. Generally, we depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Some of our subsidiaries do not depreciate contributed property, based on regulatory guidelines.

We use our capital resources, including cash, to (i) fund capital requirements, including construction expenditures, (ii) pay off maturing debt, (iii) pay dividends, (iv) fund pension and postretirement welfare obligations and (v) invest in new and existing ventures. We spend a significant amount of cash on construction projects that we expect to have a long-term return on investment. Additionally, we operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as our recovery is subject to regulatory lag. See Business Regulation Economic Regulation. As a result of these factors, our working capital, defined as current assets less current liabilities, was in a net deficit position as of December 31, 2009. We expect to fund future maturities of long-term debt through a combination of external debt and cash flow from operations. Since we continue to make investments equal to or greater than our cash flows from operating activities, we have no plans to reduce debt significantly.

As of December 31, 2008, the Company had issued, through its subsidiaries, $120.3 million of variable rate demand bonds, which were periodically remarketed. During the months of January and February 2009, AWCC purchased these variable rate demand bonds because no investors were willing to purchase the bonds at acceptable market rates and held such bonds in treasury. As a result of these repurchases in early 2009 and prior to the release of our 2008 10-K, the debt was reflected in current portion of long-term debt in the consolidated balance sheet at December 31, 2008. On May 21, 2009, AWCC remarketed $52.9 million of these variable rate demand notes as fixed rate Tax Exempt Water Facility Revenue bonds with interest rates ranging from 6.00% to 6.75%. The net proceeds from this offering were used to repay short-term debt. Also on May 21, 2009, AWCC remarketed $31.9 million of the variable rate notes held in the Company s treasury and subsequently remarketed $23.3 million as fixed rate Tax Exempt Water Facility Revenue bonds in the third quarter of 2009; the residual $8.6 million remains variable rate on the open market. During the third quarter 2009, AWCC successfully remarketed $24.9 million of the variable rate demand notes as fixed rate Tax Exempt Water Facility Revenue bonds with an interest rate of 6.25%. The net proceeds from this offering were used to repay short-term debt. The remaining $10.6 million is held in the Company s treasury at December 31, 2009. We can provide no assurances that the bonds will be remarketed successfully or at reasonable interest rates.

On February 17, 2009, the President signed the American Recovery and Reinvestment Tax Act of 2009, which we refer to as the Act, into law. As a result of the Act, we have applied and will continue as long as available to apply for subsidized financing under the Act in many of the states where we operate. During 2009, we filed applications totaling $288.3 million with state revolving loan fund agencies for either the Act or other governmental subsidized funds. To date we have been awarded $31.1 million. As of February 25, 2010, we have outstanding applications amounting to $23.4 million that can still be funded through one of these programs. Due to the demand for these funds, we believe the likelihood of being awarded these funds is low. Also during 2009, the Company issued $179.9 million of new tax-exempt rate private activity bonds, the interest on which, as a result of this Act, is not subject to the alternative minimum tax. Also, in connection with the Act, the Company has reflected the tax benefits from the extension of bonus depreciation in its 2009 results.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are weighted toward the third quarter of each fiscal year. Our future cash flows from operating activities will be affected by economic utility regulation; infrastructure investment; inflation; compliance with environmental, health and safety standards; production costs; customer growth; declining per customer usage of water; and weather and seasonality. See Factors Affecting our Results of Operations.

Cash flows from operating activities have been a reliable, steady source of funding, sufficient to meet operating requirements, our dividend payments and a portion of our capital expenditures requirements. We will seek access to debt and equity capital markets to meet the balance of our capital expenditure requirements as needed. There can be no assurance that we will be able to access such markets successfully on favorable terms or at all. Operating cash flows can be negatively affected by changes in our rate regulatory environments or changes in our customer economic outlook and ability to pay for service in a timely manner. We can provide no assurance that our customers historical payment pattern will continue in the future.

The following table provides a summary of the major items affecting our cash flows from operating activities for the periods indicated:

	2009	2008	2007
		(in thousands)	
Net income (loss)	$ (233,083)	$ (562,421)	$ (342,826)
Add (subtract):			
Non-cash operating activities(1)	1,016,826	1,214,120	881,013
Changes in working capital(2)	(60,141)	5,523	16,770
Pension and postretirement healthcare contributions	(127,446)	(105,053)	(81,245)
Net cash flows provided by operations	$ 596,156	$ 552,169	$ 473,712

(1) Includes (gain) loss on sale of businesses, depreciation and amortization, impairment charges, removal costs net of salvage, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on utility accounts receivable, allowance for other funds used during construction, (gain) loss on sale of assets, deferred regulatory costs, amortization of deferred charges and other non-cash items, net, less pension and postretirement healthcare contributions.

(2) Changes in working capital include changes to accounts receivable and unbilled utility revenue, taxes receivable (including federal income), other current assets, accounts payable, taxes accrued (including federal income), interest accrued and other current liabilities.

The increase in cash flows from operations during 2009 compared to 2008 was primarily due to increased revenues offset by changes in working capital mainly driven by changes in taxes receivable and taxes accrued. The change in taxes is primarily due to the fact that a $35.0 million tax refund, including interest, was received in December 2008. No similar amount was received at the end of 2009.

In December 2008, the Company filed a request with the Internal Revenue Service (IRS) to change its tax accounting method for repair and maintenance cost on its utility assets. The IRS partially approved the request in October 2009, with the Company receiving final approval in February 2010. As a result of this change we expect to receive cash refunds of approximately $43.1 million, including a carryback claim for alternative minimum tax of $25.2 million which will be filed for in 2010.

The increase in cash flows from operations during 2008 compared to 2007 was primarily due to increased revenues partially offset by higher contributions to our pension and postretirement healthcare trusts.

The Company currently expects to make pension and postretirement benefit contributions to the plan trusts of $119.9 million in 2010, of which $22.6 was already made in February 2010. In addition, we currently estimate that contributions will amount to $147.9 million in 2011, $155.8 million in 2012, $123.8 in 2013 and $118.8 million in 2014. Actual amounts contributed could change materially from these estimates.

The increase in the 2009 contributions was the result of the Company s 2008 unfunded status of its pension plan, which increased significantly primarily due to lower than expected 2008 asset returns. Based on the then current plan assets and expected future asset returns, the Company estimated in early 2009 the increase to pension and postretirement expense (net of capitalized amounts) in 2009 to be approximately $32 million,

pre-tax. During 2009, the Company had discussions with the majority of our regulators about the appropriate treatment for these incremental costs in order to minimize regulatory lag between incurring the expense and any recovery of the expense. As a result of these discussions, we have authorization to recover or defer $10.6 million of this annual increase and have requested permission to recover or defer as a deferred asset until the next rate case is concluded an additional $6.5 million of this increase in 2009.

Cash Flows from Investing Activities

Cash flows used in investing activities were as follows for the periods indicated:

	For the Years Ended December 31,		
	2009	**2008**	**2007**
		(in thousands)	
Net capital expenditures	$ (785,265)	$ (1,008,806)	$ (750,810)
Other investing activities, net(1)	81,654	(24,861)	4,232
Net cash flows used in investing activities	$ (703,611)	$ (1,033,667)	$ (746,578)

(1) Includes allowances for other funds used during construction, acquisitions, proceeds from the sale of assets and securities, proceeds from the sale of discontinued operations, removal costs from property, plant and equipment retirements, receivables from affiliates, restricted funds and investment in equity investee.

Cash flows used in investing activities decreased in 2009 compared to 2008 mainly due to a decrease in capital expenditures which was primarily attributable to our decision, as a result of the 2008 credit market disruptions, to decrease in 2009 our investment in our regulated utility plant projects. Cash flows used in investing activities increased in 2008 compared to 2007 as we continued to increase our investment in regulated infrastructure projects. In 2010, we estimate that Company-funded capital investment will total between $800 million and $1 billion. We intend to invest capital prudently to provide essential services to our regulated customer base, while working with regulators in the various states in which we operate to have the opportunity to earn an appropriate rate of return on our investment and a return of our investment.

Our infrastructure investment plan consists of both infrastructure renewal programs, where we replace infrastructure as needed, and major capital investment projects, where we construct new water and wastewater treatment and delivery facilities. Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

During 2008, as part of the strategy to improve operational efficiencies, we began to evaluate our processes, including information systems associated with those processes to optimize workflow throughout our field operations, improve our back-office operations and enhance our customer service. Our information systems which support many of our processes are at the end of their useful life. Our existing systems are increasingly costly and more difficult to maintain and support since our existing vendors have issued newer versions that are not compatible with our current systems. In addition, customer expectations for service are far greater today than existed when our current systems were implemented. The lack of sufficient automation limits opportunities for our customers to conduct basic self-service tasks or for our employees to service customers effectively by obtaining appropriate information quickly and consistently from across multiple non-integrated systems.

During 2009, we embarked on a study in order to assess existing internal capabilities to satisfy customer and other stakeholder expectations. The study also included a review of currently offered technology options which could enhance and automate processes, as appropriate, to improve customer service and more efficiently comply with regulatory requirements. The evaluation was designed to identify the investments necessary to replace, upgrade, enhance and/or redesign specific business processes and applicable system components. Based on the work performed to date, we have decided to undertake a business transformation initiative (BT) to enhance processes and upgrade antiquated systems in order to generate efficiencies and provide more cost effective service to our customers.

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During the first quarter of 2010, we expect to complete the evaluation of appropriate software solutions, begin the process of selecting suitable software application(s) and a systems integrator, develop a strategy to transfer existing data to new system applications as well as start the system analysis, design and roadmap. Also, in late 2010 we expect configuration of the system applications to begin.

Current estimates indicate that BT expenditures could total as much as $280 million and span a period of approximately five years. Expenditures associated with BT are included in the $800 million to $1.0 billion capital investment spending outlined above. As with any other initiative of this magnitude, there are risks that could result in increased costs. Any technical difficulties, such as consolidating our current systems, or other difficulties in developing or implementing this initiative, such as implementing a successful change management process, may result in delays, which in turn, may increase the costs of the project and also delay any cost savings and efficiencies expected to result from the initiative. When we make adjustments to our operations, we may incur incremental expenses prior to realizing the benefits of a more efficient workforce and operating structure. While we anticipate recovery of expenditures through regulated rates, we can provide no guarantee that we will be able to achieve timely or adequate rate recovery of these increased costs associated with this transformation project. Any such delays or difficulties may have a material and adverse impact on our business, customer relationships and financial results. We believe that the goals of BT increasing our operating efficiency and effectiveness and controlling the costs associated with the operation of our business are important to providing the quality service to our customers and communities we serve as well as to our long-term competitiveness.

The following table provides a summary of our historical capital expenditures:

	For the Years Ended December 31,		
	2009	2008	2007
		(in thousands)	
Transmission and distribution	$ 309,851	$ 399,597	$ 296,057
Treatment and pumping	125,031	186,480	166,765
Services, meter and fire hydrants	153,455	224,089	179,933
General structures and equipment	99,280	71,146	32,336
Sources of supply	44,127	52,392	35,135
Wastewater	53,521	75,102	40,584
Total capital expenditures	$ 785,265	$ 1,008,806	$ 750,810

Capital expenditures during the periods noted above were related to the renewal of supply and treatment assets, new water mains and customer service lines, as well as rehabilitation of existing water mains and hydrants.

Capital expenditures for 2009 decreased by $223.5 million or 22.2% from $1,008.8 million in 2008 as a result of our 2009 decision to address the credit market disruptions. Construction expenditures for 2008 increased by $258.0 million, or 34.4%, over 2007.

Expenditures related to transmission and distribution increased by $103.5 million in 2008 over 2007 and meter and fire hydrant replacements increased by $44.2 million in 2008 compared to 2007. These increases occurred due to an increase in the rate of infrastructure replacement. Treatment and pumping expenditures increased by $19.7 million in 2008 compared to 2007 as a result of significant treatment improvements in a number of states in which we operate including Kentucky, Illinois and Arizona.

On April 25, 2008, the Kentucky Public Service Commission approved Kentucky-American Water Company s application for a certificate of convenience and necessity to construct a 20.0 million gallon per day treatment plant on the Kentucky River and a 30.6 mile pipeline to meet Central Kentucky s water supply deficit. The Kentucky project is expected to be completed by the end of 2010 with an estimated cost of $162 million.

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Our construction program consists of both infrastructure renewal programs, where we replace infrastructure as needed, and construction of new water and wastewater treatment and delivery facilities to meet new customer growth and water quality regulations. An integral aspect of our strategy is to seek growth through tuck-ins and other acquisitions which are complementary to our existing business and support the continued geographical diversification and growth of our operations. Generally, acquisitions are funded initially with short-term debt and later refinanced with the proceeds from long-term debt or equity offerings.

We also conduct ongoing reviews of our existing investments. As a result of these reviews, we sold the operations of various non-regulated water-related businesses during 2007. The following provides a summary of the major acquisitions and dispositions affecting our cash flows from investing activities in the years indicated:

2009:

We paid approximately $18.1 million for seven acquisitions which consisted of six regulated water and wastewater systems and one non-regulated business, EMC.

2008:

We paid approximately $12.5 million for the acquisition of ten water and waste water systems.

We received approximately $12.6 million from the sale of other assets, which included $10.6 million in cash from the sale of the Felton water system. In September 2008, our California subsidiary completed its sale of the Felton water system to San Lorenzo Valley Water District (SLVWD). Under the terms of the agreement, SLVWD paid $13.4 million for the operating assets of the water system, which serves approximately 1,330 customers in Felton. The payment included a $10.6 million cash payment to California American Water and the assumption by SLVWD of $2.8 million in debt. The sale of the Felton system resulted in a loss on sale of $0.4 million.

2007:

We paid approximately $15.9 million for the acquisition of a number of water and wastewater systems, the largest of which was S.J. Services Inc., the parent company of Pennsgrove Water Supply Company, Inc. and South Jersey Water Supply Company, Inc. The purchase price, including acquisition costs, for S.J. Services Inc. was $13.5 million in cash.

We received approximately $9.7 million in cash proceeds from the sale of a group of assets of the Residuals business.

We received $16.3 million in cash proceeds from the sale of other assets, including $13.0 million of proceeds on a property in Mansfield, New Jersey owned by a Non-Regulated subsidiary.

During 2007, NJAWC entered into an agreement with the City to purchase the assets of the City s outside water system located in four surrounding townships. The initial proposed purchase price of $100 million was subsequently amended to $75 million plus the provision of technical services by the City over seven years at a total cost to NJAWC of $5.0 million to ensure a smooth ownership transition. The amended agreement also requires NJAWC to purchase finished water from the City for a period of 20 years after closing under a water supply agreement.

Since February 2009 a small group of Petitioners has been involved in litigation with the City and NJAWC seeking to force the sale to a referendum. On December 19, 2009, the New Jersey Superior Court Appellate panel published its decision unanimously upholding a March 2009 trial court decision in favor of the City. The Supreme Court has granted the Petitioners request for certification and oral argument is scheduled before the Supreme Court on March 22, 2010. The Company can provide no assurance as to the outcome of the litigation. The acquisition is expected to add approximately 40,000 customers to NJAWC s customer base.

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Our investing activities could require considerable capital resources which we have generated through operations and attained through financing activities. We can provide no assurances that these resources will be sufficient to meet our expected investment needs and may be required to delay or reevaluate our investment plans.

Cash Flows from Financing Activities

Our financing activities, whose primary purpose is to fund construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access the capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be funded with customer advances and contributions for construction (net of refunds). This amounted to $21.2 million, $3.1 million and $35.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

On May 1, 2009, we and AWCC filed a universal shelf registration statement that enabled us to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, all subject to market demand and ratings status. On June 10, 2009, the Company completed a public offering of 29.9 million shares of its common stock. Pursuant to the offering, the Company sold 14.5 million shares of common stock and 15.4 million shares were sold by selling stockholder, RWE.

The Company completed the sale of 14.5 million shares of common stock at $17.25 per share. The proceeds from the offering, net of underwriters discounts and expenses payable by the Company were $242.3 million. The proceeds from the offering were used to repay short-term debt.

At the same time, RWE completed a partial divestiture of its investment in the Company through the sale of 11.5 million shares also at a price of $17.25. RWE granted the underwriters a 30-day option to purchase up to an additional 3.9 million shares of the Company s stock at a price of $17.25. The underwriters exercised their option and purchased 3.9 million shares to cover over-allotments. The Company did not receive any proceeds from the RWE sale of the Company s shares. Prior to the sale of these shares by RWE and the Company, RWE owned approximately 60% of the Company s common shares. After the sales of shares and exercise of the underwriters over-allotment option, RWE owned approximately 47% of the Company s shares.

During the remainder of 2009, RWE continued to divest of its remaining investment in the Company through the sale of additional shares. In August 2009, RWE sold 40.3 million shares, including 5.3 million shares to cover the over-allotments at a price of $19.25. In November 2009, RWE sold 41.1 million shares which included 3.7 million shares to cover the over-allotments, at a price of $21.63. We did not receive any proceeds from the RWE sales of the Company s shares. As a result of the full exercise of the underwriter s option in November 2009, RWE became fully divested of our common stock.

In regards to debt financings, the following long-term debt was issued in 2009:

Company	Type	Interest Rate	Maturity		Amount (In thousands)
American Water Capital Corp.	Private activity-fixed rate	6.25%	2039	a	$ 45,390
American Water Capital Corp.	Private activity-fixed rate	6.00%	2018	c	18,250
American Water Capital Corp.	Private activity-fixed rate	6.10%	2019	c	17,950
American Water Capital Corp.	Private activity-fixed rate	6.75%	2031	c	16,700
American Water Capital Corp.	Private activity-fixed rate	6.25%	2032	f	24,860
American Water Capital Corp.	Private activity-fixed rate	5.63%	2039	a	26,000
American Water Capital Corp.	Private activity-fixed rate	6.25%	2032	d	23,325
American Water Capital Corp.	Private activity-fixed rate	5.25%	2039	i	28,500
American Water Capital Corp.	Senior notes-fixed rate	8.27%	2039	b	25,500
American Water Capital Corp.	Senior notes-fixed rate	7.21%	2019	b	24,500
American Water Capital Corp.	Senior notes-fixed rate	8.25%	2038	b	75,000

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Company	Type	Interest Rate	Maturity		Amount (In thousands)
American Water Capital Corp.	Senior notes-fixed rate	6.00%	2039	b	$ 60,000
Other subsidiaries	Private activity-fixed rate	6.20%	2039	e	80,000
Other subsidiaries	Private activity-fixed rate	1.27%	2029	g	2,242
Other subsidiaries	Private activity-fixed rate	4.14%	2029	h	1,315
Other subsidiaries	Private activity-fixed rate	5.00%	2039	j	10,500
Other subsidiaries	Private activity-fixed rate	5.70%	2039	j	134,224
Other subsidiaries	Private activity-floating rate	1.00%	2015	d	8,560
Other subsidiaries	Mortgage bonds-fixed rate	5.48%	2019	b	25,000
Other subsidiaries	Mortgage bonds-fixed rate	6.35%	2039	b	75,000
Other	Capital lease	8.82%	2011		41
Total issuances					$ 722,857

Note: Private activity type defined as private activity bonds and government funded debt.

(a) The proceeds from the bond offering was used to repay short-term debt related to the construction of a water treatment and transmission facility located in Owen County, Kentucky, as well as to pay the remaining costs of acquisition, construction, installation and equipping of the water treatment and transmission facility as the construction proceeds to completion.

(b) The proceeds were used to pay down short-term debt.

(c) On May 21, 2009, AWCC remarketed $52.9 million of variable rate demand notes as fixed rate Tax Exempt Water Facility Revenue bonds. The net proceeds from this offering was used to repay short-term debt.

(d) On May 21, 2009, AWCC successfully remarketed $31.9 million of variable rate demand notes previously held in the Company s treasury. The new notes had an interest rate of 1.00%. The net proceeds from this offering were used to repay commercial paper. Subsequently, on August 27, 2009, AWCC remarketed the $23.3 million of the variable rate demand notes as fixed rate Tax Exempt Water Facility Revenue bonds with an interest rate of 6.25% and the remaining $8.6 million was remarketed at variable rates.

(e) On April 8, 2009, Pennsylvania-American Water Company (PAWC) closed an offering to issue $80.0 million in tax-exempt water facility revenue bonds through the Pennsylvania Economic Development Financing Authority (PEDFA). The proceeds from the offering will be used to fund certain capital improvement projects. As of December 31, 2009, we have drawn down $40.7 million of these funds.

(f) On August 27, 2009, AWCC successfully remarketed $24.9 million of variable rate demand notes previously held in the Company s treasury. The net proceeds from this offering were used to repay short-term debt.

(g) On August 26, 2009, PAWC received $2.2 million through the Pennsylvania Infrastructure Investment Authority for the installation of mains in the Hanover and Colliers Water System.

(h) Ohio-American Water Company received proceeds from the Ohio Water Development Authority. The proceeds will be used to fund line replacements in the Ashtabula service area.

(i) On October 1, 2009 AWCC closed an offering of $28.5 million in tax-exempt water facility revenue bonds with a 10-year call option issued by the Illinois Finance Authority. The proceeds from this offering will be used to fund certain capital improvements.

(j) On October 20, 2009, NJAWC closed an offering of tax-exempt water facility revenue bonds. The proceeds were use to pay down short-term debt.

In connection with the EMC acquisition, we assumed $4.0 million of capital lease obligations. Also, in December 2009, we refunded and reissued $93.1 million of Pennsylvania-American Water Company private activity general mortgage bonds scheduled to mature in 2032 and 2033. The bonds 3.60% fixed interest rate expired in December 2009, and the new bonds have a fixed interest rate of 5.50% with a maturity of 2039.

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The following long-term debt was retired through optional redemption or payment at maturity during 2009:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
Long-term debt:				
American Water Capital Corp.	Floating rate	1.55%-2.20%	2018-2032	$ 86,860
American Water Capital Corp.	Senior notes-fixed rate	6.87%-8.25%	2011-2038	28,147
Other subsidiaries	Floating rate	1.50%-10.00%	2015-2032	33,420
Other subsidiaries	Notes payable and other	5.76%-9.87%	2009-2013	171
Other subsidiaries	Mortgage bonds-fixed rate	6.90%-9.22%	2009-2011	20,847
Other subsidiaries	Private activity-fixed rate	0.00%-5.90%	2009-2034	8,505
Mandatory redeemable preferred stock		4.60%-6.00%	2013-2019	218
Other	Capital lease			181
Total retirements & redemptions				$ 178,349

The following long-term debt was issued in 2008:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
American Water Capital Corp.	Senior notes	6.25%	2018(a)	$ 110,000
American Water Capital Corp.	Senior notes	6.55%	2023(a)	90,000
American Water Capital Corp.	Senior notes	10.00%	2038(a)	75,000
Other subsidiaries	State financing authority loans and other	1.00%-1.39%	2024-2025(b)	4,941
Total issuances				$ 279,941

(a) Proceeds used to repay short-term debt incurred to fund capital expenditures and general working capital purposes. In addition cash equity contribution from RWE of $245.0 million was also used to repay short-term debt.

(b) The proceeds from the offering were used to fund certain capital improvement projects.

The following long-term debt and preferred stock with mandatory redemption requirements were repurchased or retired through optional redemption or payment at maturity during 2008:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
Long-term debt:				
American Water Capital Corp.	Senior notes-fixed rate	6.87%	2011	$ 28,000
Other subsidiaries	Senior notes-floating rate	6.48%-10.00%	2021-2032	144,725
Other subsidiaries	Subsidiary fixed rate bonds and notes	5.05%-9.35%	2008-2029	61,065
Other subsidiaries	State financing authority loans and other	0.00%-9.87%	2008-2034	10,389
Preferred stock with mandatory redemption requirements:				
Other subsidiaries		4.60%-6.00%	2013-2019	218

Total retirements & redemptions	$	244,397

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Other subsidiaries fixed rate bonds and notes redemptions includes $2,832 of debt assumed by the purchaser in the Felton water system asset sale.

The following long-term debt was issued in 2007:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
American Water Capital Corp.	RWE notes-variable rate	5.72%	2009(b)	$ 1,750,000
American Water Capital Corp.	Senior notes	5.39%-6.59%	2018-2037(a)	2,117,000
Other subsidiaries	State financing authority loans and miscellaneous	1.00%-1.62%	2013-2025	2,109
Total issuances				$ 3,869,109

(a) Senior notes issued through private placement. RWE made equity contributions to the Company amounting to $1,067.1 million during 2007. The Company used the equity contributions and proceeds from the senior notes to offset loans payable to RWE, to repay outstanding commercial paper and for other corporate purposes.

(b) Issuance of RWE redemption notes to RWE. The Company used the proceeds from the RWE redemption notes to redeem $1,750.0 million of its 5.9% mandatory redeemable preferred stock held by RWE.

In 2007, in connection with the acquisition of S.J. Services Inc, we assumed $3.5 million of long-term debt consisting of senior notes and state financing authority loans with interest rates ranging from 0.00% to 9.10% and maturities ranging from 2008 to 2025.

The following debt and preferred stock with mandatory redemption requirements were retired through extinguishments, optional redemption or payment at maturity in 2007:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
Long-term debt:				
American Water Capital Corp.	Senior notes-fixed rate	6.87%	2011	$ 28,000
American Water Capital Corp.	RWE notes-fixed rate	4.00%-6.05%	2007-2034	465,300
American Water Capital Corp.	RWE redemption notes-fixed rate	5.72%	2009	1,750,000
Various Subsidiaries	Senior notes-fixed rate	7.25%-8.75%	2007-2028	101,531
Various Subsidiaries	Miscellaneous	0%-10.06%	2007-2034	114,340
Preferred stock with mandatory redemption requirements				
American Water Works Company, Inc.	RWE preferred stock-fixed rate	5.90%	2012	$ 1,750,000
Various Subsidiaries		4.60%-8.88%	2007-2019	388
Total extinguishments, retirements & redemptions				$ 4,209,559

From time to time and as market conditions warrant, we may engage in long-term debt retirements via tender offers, open market repurchases or other viable alternatives to strengthen our balance sheets.

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Credit Facilities and Short-Term Debt

The components of short-term debt were as follows:

	December 31, 2009	December 31, 2008
	(in thousands)	
Revolving credit line	$	$ 437,000
Commercial paper, net of discount	84,995	
Book-overdraft	34,502	42,010
Total short-term debt	$ 119,497	$ 479,010

AWCC has entered into a $10.0 million committed revolving line of credit with PNC Bank, N.A which was scheduled to terminate on December 31, 2009. On December 15, 2009, this line of credit was extended for an additional year and will terminate on December 31, 2010 unless extended. This line is used primarily for short-term working capital needs. Interest rates on advances under this line of credit are based on either the prime rate of PNC Bank, N.A. or the applicable LIBOR for the term selected plus 200 basis points for 2009 and 175 basis points for 2010. In addition, there is a fee of 25 basis points charged quarterly on the portion of the commitment that is undrawn. As of December 31, 2009 and December 31, 2008 there were no outstanding borrowings under this revolving line of credit. If this line of credit were not extended beyond its current maturity date of December 31, 2010, AWCC would continue to have access to its $840.0 million unsecured revolving credit facility described below.

AWCC, our finance subsidiary, has entered into an $840 million senior unsecured credit facility syndicated among the following group of 11 banks with JPMorgan Chase Bank, N.A. acting as administrative agent.

Bank	Commitment Amount Through September 15, 2012	Commitment Amount Through September 15, 2013
	(in thousands)	
JPMorgan Chase Bank, N.A.	$ 115,000	$ 0
Citibank, N.A.	115,000	115,000
Citizens Bank of Pennsylvania	80,000	80,000
Credit Suisse	80,000	80,000
William Street Commitment Corporation	80,000	80,000
Merrill Lynch Bank USA	80,000	80,000
Morgan Stanley Bank	80,000	80,000
UBS Loan Finance LLC	80,000	80,000
National City Bank	50,000	50,000
PNC Bank, National Association	40,000	40,000
The Bank of New York Mellon	40,000	0
	$ 840,000	$ 685,000

This revolving credit facility, which was originally scheduled to terminate on September 15, 2011, is principally used to support the commercial paper program at AWCC and to provide up to $150.0 million in letters of credit. On September 14, 2007, this revolving credit facility was extended for an additional year by the facility bank group, making the new termination date September 15, 2012. On September 15, 2008, a majority of the banks agreed to further extend $685.0 million of commitments under this revolving credit facility to September 15, 2013. On December 18, 2008, The Bank of New York Mellon joined the credit facility syndicate with a commitment amount of $40.0 million through September 15, 2012. If any lender defaults in its obligation to fund advances, the Company may request the other lenders to assume the defaulting lender s commitment or replace such defaulting lender by designating an assignee willing to assume the commitment. However, the

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remaining lenders have no obligation to assume a defaulting lender s commitment and we can provide no assurances that we will be able to replace a defaulting lender. AWCC had no outstanding borrowings and $48.2 million of outstanding letters of credit under this credit facility as of February 24, 2010. Also, as of February 24, 2010, AWCC had $58.9 million of commercial paper outstanding.

On December 31, 2009 and 2008, AWCC had the following sub-limits and available capacity under the revolving credit facility and indicated amounts of outstanding commercial paper:

	Credit Facility Commitment (in thousands)	Available Credit Facility Capacity (in thousands)	Letter of Credit Sublimit (in thousands)	Available Letter of Credit Capacity (in thousands)	Outstanding Commercial Paper (Net of Discount) (in thousands)	Credit Line Borrowings (in thousands)
December 31, 2009	$ 850,000	$ 801,754	$ 150,000	$ 101,754	$ 84,995	$
December 31, 2008	$ 850,000	$ 369,097	$ 150,000	$ 106,097	$	$ 437,000

Interest rates on advances under the revolving credit facility are based on either prime or LIBOR plus an applicable margin based upon our credit ratings, as well as total outstanding amounts under the agreement at the time of the borrowing. The maximum LIBOR margin is 55 basis points.

The weighted average interest rate on short-term borrowings for the years ended December 31, 2009 and 2008 was approximately 0.82% and 3.51%, respectively.

Capital Structure

Our capital structure was as follows:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Common stockholder equity and preferred stock without mandatory redemption rights	42%	44%	48%
Long-term debt and redeemable preferred stock at redemption value	56%	49%	49%
Short-term debt and current portion of long-term debt	2%	7%	3%
	100%	100%	100%

The changes to our capital resource mix during 2008 and 2007 were accomplished through the various financing activities noted above in Cash from Financing Activities . The capital structure at December 31, 2009 more closely reflects our expected future capital structure.

As a condition to some PUC approvals of the RWE divestiture, we agreed to maintain a capital structure with a minimum of 45% common equity at the time of the consummation of our initial public offering on April 28, 2008. As a result of the impairment charge recorded for the three months ended March 31, 2008, our capital structure did not meet this minimum requirement and we received a cash equity contribution from RWE of $245.0 million on May 1, 2008. This cash was used to repay $243.4 million of short-term debt. Following the initial public offering, RWE was not obligated to make any additional capital contributions. Contributions from RWE were $1,067.1 million for the year ended December 31, 2007.

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we or our subsidiaries may be restricted in our ability to pay dividends, issue debt or access our

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revolving credit lines. We were in compliance with our covenants as of December 31, 2009. See Risk Factors Risks Related to Our Industry and Business Our failure to comply with restrictive covenants under our credit facilities could trigger repayment obligations. Long-term debt indentures contain a number of covenants that, among other things, limit, subject to certain exceptions, the Company from issuing debt secured by the Company s assets.

The revolving credit facility requires us to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. On December 31, 2009, our ratio was 0.58 and therefore we were in compliance with the ratio.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets depend on the securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we do issue debt at our regulated subsidiaries, primarily in the form of tax exempt securities, to lower our overall cost of debt. The following table shows the Company s securities ratings as of December 31, 2009:

Securities	Moody s Investors Service	Standard & Poor s Ratings Service
Senior unsecured debt	Baa2	BBB+
Commercial paper	P2	A2

On December 21, 2009**,** Standard & Poor s Ratings Services, which we refer to as S&P, affirmed its BBB+ corporate credit rating on AWCC and American Water and affirmed AWCC s A2 short-term rating. S&P s rating outlook for both American Water and AWCC is stable.

On November 20, 2009, Moody s Investors Service, which we refer to as Moody s, affirmed its Baa2 corporate credit rating on AWCC and American Water and affirmed AWCC s P2 short-term rating. The rating outlook for both American Water and AWCC is stable.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flow is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facilities.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on the Company s net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company s situation at the time of the demand. If we can reasonably claim that we are willing and financially able to perform our obligations, it may be possible to argue successfully that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient. We do not expect to post any collateral which will have a material adverse impact on the Company s results of operation, financial position or cash flows.

Dividends

Our board of directors has adopted a dividend policy to distribute to our stockholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. Generally, our policy is to distribute 50% to 70% of our net income annually. We expect that dividends will be paid every March, June, September and December of each fiscal year to holders of record approximately 15 days prior to the distribution date. Since the dividends on our common stock will not be cumulative, only declared dividends will be paid.

During 2009 and 2008, we paid $137.3 million and $64.1 million in dividends, respectively. For 2009, we paid a dividend of $0.21 per share on December 1, 2009 and September 1, 2009 and $0.20 per share on June 1, 2009 and March 2, 2009. For 2008, we paid a dividend of $0.20 per share on September 2, 2008 and December 1, 2008. There were no common dividend payments made for 2007.

Subject to applicable law and the discretion of our board of directors, we will pay cash dividends of approximately $0.21 per share per quarter in 2010, to be paid approximately 60 days after the end of each fiscal quarter. The quarterly and annual average aggregate dividend amounts for the four quarters would be $36.7 million, and $146.7 million annually. The aggregate dividend amounts are based upon 174.7 million shares outstanding as of February 25, 2010. Under Delaware law, our board of directors may declare dividends only to the extent of our surplus (which is defined as total assets at fair market value *minus* total liabilities, *minus* statutory capital) or, if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal year. Although we believe we will have sufficient net profits or surplus to pay dividends at the anticipated levels during the next four quarters, our board of directors will seek periodically to assure itself of this before actually declaring any dividends. In future periods, our board of directors may seek opinions from outside valuation firms to the effect that our solvency or assets are sufficient to allow payment of dividends, and such opinions may not be forthcoming. If we sought and were not able to obtain such an opinion, we likely would not be able to pay dividends.

On January 29, 2010, our board of directors declared a quarterly cash dividend payment of $0.21 per share payable on March 1, 2010 to all shareholders of record as of February 18, 2010.

Current Credit Market Position

The Company believes it has sufficient liquidity should there be a disruption of the capital and credit markets. The Company funds liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and credit facilities with $850.0 million in aggregate total commitments from a diversified group of banks. As of February 24, 2010, we had $801.8 million available to fulfill our short-term liquidity needs, to issue letters of credit and back our $58.9 million outstanding commercial paper. As of February 24, 2010, the Company can issue additional commercial paper of $641.1 million which is backed by the credit facilities. The 2008 market disruptions caused the Company to redeem its tax exempt bonds in variable rate structures and remarket as fixed rate securities. The Company closely monitors the financial condition of the financial institutions associated with its credit facilities.

At this time, the Company does not believe recent market disruptions will impact its long-term ability to obtain financing. The Company expects to have access to liquidity in the capital markets on favorable terms before the maturity dates of its current credit facilities and the Company does not expect a significant number of its lenders to default on their commitments thereunder. In addition, the Company can delay major capital investments or pursue financing from other sources to preserve liquidity, if necessary. The Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

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Regulatory Restrictions

The issuance by the Company or AWCC of long-term debt or equity securities does not require authorization of any state PUC if no guarantee or pledge of the regulated subsidiaries is utilized. However, state PUC authorization is required to issue long-term debt or equity securities at most of our regulated subsidiaries. Our regulated subsidiaries normally obtain the required approvals on a periodic basis to cover their anticipated financing needs for a period of time or in connection with a specific financing.

Under applicable law, our subsidiaries can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at a subsidiary may limit the dividends that these companies can distribute to us.

Insurance Coverage

We carry various property, casualty and financial insurance policies with limits, deductibles and exclusions consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. We are self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on our short-term and long-term financial condition and the results of operations and cash flows.

Contractual Obligations and Commitments

We enter into obligations with third parties in the ordinary course of business. These financial obligations, as of December 31, 2009, are set forth in the table below:

Contractual obligation	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			($ in thousands)		
Long-term debt obligations(a)	$ 5,278,847	$ 53,242	$ 65,307	$ 117,737	$ 5,042,561
Interest on long-term debt(b)	5,800,069	325,433	645,687	635,070	4,193,879
Capital lease obligations(c)	5,679	608	1,310	1,092	2,669
Interest on capital lease obligations(d)	2,387	367	605	453	962
Operating lease obligations(e)	209,266	29,024	45,093	28,149	107,000
Purchase water obligations(f)	741,125	50,343	91,764	89,701	509,317
Other purchase obligations(g)	87,172	87,172			
Postretirement benefit plans obligations(h)	179,619	38,719	75,500	65,400	
Pension ERISA minimum funding requirement(h)	486,600	81,200	228,200	177,200	
Preferred stocks with mandatory redemption requirements	24,207	218	945	3,434	19,610
Interest on preferred stocks with mandatory redemption requirements	25,940	2,025	4,000	3,603	16,312
Other obligations(i)	1,004,897	164,414	115,517	80,972	643,994
Total	$ 13,845,808	$ 832,765	$ 1,273,928	$ 1,202,811	$ 10,536,304

Note: The above table reflects only financial obligations and commitments. Therefore, performance obligations associated with our Non-Regulated Businesses are not included in the above amounts.

(a) Represents sinking fund obligations and debt maturities.
(b) Represents expected interest payments on outstanding long-term debt. Amounts reported may differ from actual due to future refinancing of debt.
(c) Represents future minimum payments under noncancelable capital leases.

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(d) Represents expected interest payments on noncancelable capital leases.
(e) Represents future minimum payments under noncancelable operating leases, primarily for the lease of motor vehicles, buildings, land and other equipment.
(f) Represents future payments under water purchase agreements for minimum quantities of water.
(g) Represents the open purchase orders as of December 31, 2009, for goods and services purchased in the ordinary course of business.
(h) Represents contributions expected to be made to pension and post retirement benefit plans for the years 2010 through 2014.
(i) Includes an estimate of advances for construction to be refunded, capital expenditures estimated to be required under legal and binding contractual obligations, a liability associated with a conservation agreement and service agreements.

Public-Private Partnerships

West Virginia American Water Company, which we refer to as WVAWC, has entered into a series of agreements with various public entities, which we refer to as the Partners, to establish certain joint ventures, commonly referred to as public-private partnerships. Under the public-private partnerships, the WVAWC constructed utility plant, financed by the WVAWC, and the Partners constructed utility plant (connected to the WVAWC s property), financed by the Partners. WVAWC agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds, commonly referred to as IDBs, issued by the Partners under a state Industrial Development Bond and Commercial Development Act. WVAWC leased back the total facilities, including portions funded by both WVAWC and the Partners, under leases for a period of 40 years.

WVAWC leased back the transferred facilities under capital leases for a period of 40 years. The leases have payments that approximate the payments required by the terms of the IDBs. We have presented the transaction on a net basis in the consolidated financial statements. The carrying value of the transferred facilities was approximately $160.3 million at December 31, 2009.

Non-Regulated Businesses Performance Obligations

Our Non-Regulated Businesses Contract Operations Group enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. These military services agreements expire between 2051 and 2060 and have remaining performance of $2,097.0 million at December 31, 2009. The Operations and Maintenance agreements with municipalities and other customers expire between 2010 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $1,305.0 million at December 31, 2009. Some of the Company s long-term contracts to operate and maintain a municipality s, federal government s or other party s water or wastewater treatment and delivery facilities include responsibility for certain major maintenance for some of the facilities, in exchange for an annual fee.

Critical Accounting Policies and Estimates

The application of critical accounting policies is particularly important to our financial condition and results of operations and provides a framework for management to make significant estimates, assumptions and other judgments. Although our management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain. Accordingly, changes in the estimates, assumptions and other judgments applied to these accounting policies could have a significant impact on our financial condition and results of operations as reflected in our consolidated financial statements.

Our financial condition, results of operations and cash flow are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. Management believes that the areas described below require significant judgment in the application of accounting policy or in making estimates and

assumptions in matters that are inherently uncertain and that may change in subsequent periods. Our management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with our audit committee. In addition, our management has also reviewed the following disclosures regarding the application of these critical accounting policies with the audit committee.

Regulatory Accounting

Our regulated utility subsidiaries are subject to regulation by state PUCs and the local governments of the states in which they operate. As such, we account for these regulated operations in accordance with authoritative guidance that requires us to reflect the effects of rate regulation in our financial statements. Use of the authoritative guidance is applicable to utility operations that meet the following criteria: (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. As of December 31, 2009, we had concluded that the operations of our regulated subsidiaries meet the criteria. If it is concluded in a future period that a separable portion of the businesses no longer meets the criteria, we are required to eliminate the financial statement effects of regulation for that part of the business, which would include the elimination of any or all regulatory assets and liabilities that had been recorded in the consolidated financial statements. Failure to meet the criteria of the authoritative guidance could materially impact our consolidated financial statements as a one-time extraordinary item and continued impacts on our operating activities.

Regulatory assets represent costs that have been deferred to future periods when it is probable that the regulator will allow for recovery through rates charged to customers. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred. As of December 31, 2009, we have recorded $952.0 million of net regulatory assets within our consolidated financial statements. Also, at December 31, 2009, we had recorded $322.3 million of regulatory liabilities within our consolidated financial statements. See Note 7 of the Notes to Consolidated Financial Statements for further information regarding the significant regulatory assets and liabilities.

For each regulatory jurisdiction where we conduct business, we continually assess whether the regulatory assets and liabilities continue to meet the criteria for probable future recovery or settlement. This assessment includes consideration of factors such as changes in applicable regulatory environments, recent rate orders to other regulated entities in the same jurisdiction, the status of any pending or potential deregulation legislation and the ability to recover costs through regulated rates.

Goodwill

The Company s annual impairment reviews are performed as of November 30 of each year, in conjunction with the timing of the completion of the Company s annual strategic business plan. At December 31, 2009, the Company s goodwill was $1,250.4 million. The Company also undertakes interim reviews when the Company determines that a triggering event that would more likely than not reduce the fair value of a reporting unit below its carrying value has occurred.

The Company uses a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). The step 1 calculation used to identify potential impairment compares the calculated fair value for each of the Company s reporting units to their respective net carrying values (book values), including goodwill, on the measurement date. If the fair value of any reporting unit is less than such reporting unit s carrying value, then step 2 is performed to measure the amount of the impairment loss (if any) for such reporting unit.

The step 2 calculation of the impairment test compares, by reporting unit, the implied fair value of the goodwill to the carrying value of goodwill. The implied fair value of goodwill is equal to the excess of the fair value of each reporting unit above the fair value of such reporting unit s identified assets and liabilities. If the

carrying value of goodwill exceeds the implied fair value of goodwill for any reporting unit, an impairment loss is recognized in an amount equal to the excess (not to exceed the carrying value of goodwill) for that reporting unit.

The determination of the fair value of each reporting unit and the fair value of each reporting unit s assets and liabilities is performed as of the measurement date using observable market data before and after the measurement date (if that subsequent information is relevant to the fair value on the measurement date).

For the November 30, 2009 impairment test, the estimated fair value of the Regulated reporting unit for step 1 was based on a combination of the following valuation techniques:

- observable trading prices of comparable equity securities of publicly-traded water utilities considered by us to be the Company s peers; and

- discounted cash flow models developed from the Company s internal forecasts.

The first valuation technique applies average peer multiples to the Regulated reporting unit s historic and forecasted cash flows. The peer multiples are calculated using the average trading prices of comparable equity securities of publicly-traded water utilities, their published cash flows and forecasts of market price and cash flows for those peers.

The second valuation technique forecasts each reporting unit s five-year cash flows using an estimated long-term growth rate and discounts these cash flows at their respective estimated weighted average cost of capital.

Because of the unique nature, small size and lack of historical earnings of most of the Non-Regulated reporting units, a market approach could not be reasonably applied. As such the estimated fair values of the Non-regulated reporting units were determined entirely on the basis of discounted cash flow models.

The Company has completed its November 30, 2009 annual impairment review and does not believe that the Company s goodwill balance was impaired. The Company s fair value calculated in its 2009 impairment test period was approximately 6% above the aggregate carrying value of its reporting units.

However, there can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company s performance. These market events could include a decline over a period of time of the Company s stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company s market price consistent with its peer companies, or decreases in control premiums. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, could also result in an impairment charge.

We also made certain assumptions, which we believe to be appropriate, that support the fair value of our reporting units. We considered, in addition to the listed trading price of the Company s shares, the applicability of a control premium to our shares and certain other factors we deemed appropriate. As a result, we concluded that the Company s fair value exceeds what we might otherwise have concluded had we relied on market price alone.

The difference between our calculated market capitalization (which approximates carrying value) and the aggregate fair value of our reporting units resulted from an estimated control premium. The estimated control premium represents the incremental premium a buyer is willing to pay to acquire a controlling, majority interest in the Company. In estimating the control premium, management principally considered the current market conditions and historical premiums paid in utility acquisitions observed in the marketplace.

For the years ended December 31, 2009, 2008 and 2007, the Company recorded impairment charges for goodwill in the amount of $450.0 million, $750.0 million, and $509.3 million, respectively.

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Impairment of Long-Lived Assets

Long-lived assets, other than goodwill which is discussed above, include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market price of a long-lived asset, a significant adverse change in the manner in which the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, we estimate the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets, and compare that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recognized equal to the amount by which the asset s carrying value exceeds its fair value. The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. A variation in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus, could have a significant effect on the consolidated financial statements.

The long-lived assets of the regulated utility subsidiaries are grouped on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which we invest, as well as volatility inherent in the external markets. In assessing potential impairment for these investments, we consider these factors. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset s carrying value exceeds its fair value.

Revenue Recognition

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are delivered to customers and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period. Unbilled revenues as of December 31, 2009 and 2008 were $130.3 million and $134.2 million, respectively. Increases in volumes delivered to the utilities customers and favorable rate mix due to changes in usage patterns in customer classes in the period could be significant to the calculation of unbilled revenue. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date would also have an effect on the estimated unbilled revenue; however, since the majority of our customers are billed on a monthly basis, total operating revenues would remain materially unchanged.

Revenue from non-regulated operations is recognized as services are rendered. Revenues from certain construction projects are recognized over the contract term based on the estimated percentage of completion during the period compared to the total estimated services to be provided over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities on the balance sheet until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

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Accounting for Income Taxes

The parent company and its subsidiaries participate in a consolidated federal income tax return for United States tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, the regulated utility subsidiaries recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Accounting for Pension and Postretirement Benefits

We maintain noncontributory defined benefit pension plans covering eligible employees of our regulated utility and shared service operations. The pension plans have been closed for any employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 will be provided with a 5.25% of base pay defined contribution plan. We also maintain postretirement benefit plans for eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002. See Note 15 of the Notes to Consolidated Financial Statements for further information regarding the accounting for the defined benefit pension plans and postretirement benefit plans.

The Company s pension and postretirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions provided by the Company to its actuaries, including the discount rate and expected long-term rate of return on plan assets. Material changes in the Company s pension and postretirement benefit costs may occur in the future due to changes in these assumptions as well as fluctuations in plan assets. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes. The primary assumptions are:

Discount Rate The discount rate is used in calculating the present value of benefits, which are based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due;

Expected Return on Plan Assets Management projects the future return on plan assets considering prior performance, but primarily based upon the plans mix of assets and expectations for the long-term returns on those asset classes. These projected returns reduce the net benefit costs we record currently;

Rate of Compensation Increase Management projects employees annual pay increases, which are used to project employees pension benefits at retirement; and

Health Care Cost Trend Rate Management projects the expected increases in the cost of health care.

The discount rate is subject to change each year, consistent with changes in applicable high-quality, long-term corporate bond indices. In selecting a discount rate for our pension and postretirement benefit plans, a yield curve was developed for a portfolio containing the majority of United States-issued Aa-graded non-callable (or callable with make-whole provisions) corporate bonds. For each plan, the discount rate was developed as the level equivalent rate that would yield the same present value as using spot rates aligned with the projected benefit payments. The discount rate for determining pension benefit obligations was 5.93%, 6.12% and 6.27% at December 31, 2009, 2008 and 2007, respectively. The discount rate for determining other post-retirement benefit obligations was 5.82%, 6.09% and 6.20% at December 31, 2009, 2008 and 2007, respectively.

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In selecting an expected return on plan assets, we considered tax implications, past performance and economic forecasts for the types of investments held by the plans. The long-term expected rate of return on plan assets, which we refer to as EROA, assumption used in calculating pension cost was 7.90% for 2009 and 2008 and 8.00% for 2007. The weighted average EROA assumption used in calculating other postretirement benefit costs was 7.60% for 2009, 7.75% for 2008 and 7.38% for 2007.

The asset allocation for the Company s U.S. pension plan at December 31, 2009 and 2008 by asset category, are as follows:

Asset category	Target Allocation 2009	Percentage of Plan Assets At December 31, 2009	2008
Equity securities	70%	71%	70%
Fixed income	30%	29%	30%
Total	100%	100%	100%

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted average credit rating of AA or better by Standard & Poor s and the minimum credit quality for fixed income securities must be BBB- or better. Up to 20% of the portfolio may be invested in collateralized mortgage obligations backed by the United States Government.

The Company s other postretirement benefit plans are partially funded. The asset allocation for the Company s other postretirement benefit plans at December 31, 2009 and 2008, by asset category, are as follows:

Asset category	Target Allocation 2009	Percentage of Plan Assets At December 31, 2009	2008
Equity securities	70%	70%	70%
Fixed income	30%	30%	30%
Total	100%	100%	100%

The Company s investment policy, and related target asset allocation, is evaluated periodically through asset liability studies. The studies consider projected cash flows of maturity liabilities, projected asset class return risk, and correlation and risk tolerance.

The pension and postretirement welfare plan trusts investments include debt and equity securities held directly and through commingled funds. The trustee for the Company s defined benefit pension and post retirement welfare plans uses independent valuation firms to calculate the fair value of plan assets. Additionally, the company independently verifies the assets values. Approximately 87.2% of the assets are valued using the quoted market price for the assets in an active market at the measurement date. The remaining 12.8% of the assets are valued using other observable inputs.

In selecting a rate of compensation increase, we consider past experience in light of movements in inflation rates. Our rate of compensation increase was 4.00% for 2009 and 2008 and 4.25% for 2007.

In selecting health care cost trend rates, we consider past performance and forecasts of increases in health care costs. Our health care cost trend rate used to calculate the periodic cost was 8.00% in 2009 gradually declining to 5.00% in 2015 and thereafter.

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Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Change in Actuarial Assumption	Impact on Other Postretirement Benefit Obligation at December 31, 2009	Impact on 2009 Total Service and Interest Cost Components
	($ in thousands)	
Increase assumed health care cost trend by 1%	$ 72,084	$ 6,265
Decrease assumed health care cost trend by 1%	$ (60,025)	$ (5,167)

We will use a discount rate and EROA of 5.93% and 7.90%, respectively, for estimating our 2010 pension costs. Additionally, we will use a discount rate and EROA of 5.82% and 7.60%, respectively, for estimating our 2010 other postretirement benefit costs. A decrease in the discount rate or the EROA would increase our pension expense. Our 2009 and 2008 pension and postretirement costs were $72.6 million and $51.4 million, respectively. The Company currently expects to make pension and postretirement benefit contributions to the plan trusts of $119.9 million, $147.9 million, $155.8 million, $123.8 million and $118.8 million in 2010, 2011, 2012, 2013 and 2014 respectively. Actual amounts contributed could change significantly from these estimates.

The assumptions are reviewed annually and at any interim remeasurement of the plan obligations. The impact of assumption changes is reflected in the recorded pension and postretirement benefit amounts as they occur, or over a period of time if allowed under applicable accounting standards. As these assumptions change from period to period, recorded pension and postretirement benefit amounts and funding requirements could also change.

Recent Accounting Pronouncements

Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires new disclosures of (i) the amounts of significant transfers into and out of Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers and (ii) information in the reconciliation of recurring Level 3 measurements (those using significant unobservable inputs) about purchases, sales, issuances, and settlements on a gross basis. This update also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of Level 3 measurements, which does not become effective until interim and annual periods beginning after December 15, 2010. As this guidance clarifies and provides for additional disclosure requirements only, the adoption of this guidance is not expected to have an impact on the Company s results of operations, financial position or cash flows.

In August 2009, the FASB issued authoritative guidance clarifying the measurement of the fair value of liabilities. The amendments reduce potential ambiguity in financial reporting when measuring the fair value of liabilities and help to improve consistency in the application of authoritative guidance. This update is effective for the first reporting period, including interim periods, beginning after issuance, which for the Company was October 1, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

In April 2009, the FASB provided additional guidance on fair value measurements in inactive markets when the volume and level of activity for the asset and liability have significantly decreased. This amendment also includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance is effective for interim reporting periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

In February 2008, the FASB issued guidance that allowed a one-year deferral of adoption of the guidance for nonfinancial assets and nonfinancial liabilities (such as intangible assets, property, plant and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The Company elected to use this deferral option and accordingly, adopted this guidance for the Company s nonfinancial assets and liabilities valued on a non-recurring basis on January 1, 2009. The adoption of this guidance did not have a significant impact on the Company s results of operations, financial position or cash flows.

Accounting Standards Codification

In June 2009, the FASB issued authoritative guidance that establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative U.S. GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. This guidance is effective for interim and annual periods ending after September 15, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued authoritative guidance that replaces the quantitative-based risk and rewards calculation for determining which reporting entity has a controlling financial interest in a variable interest entity with a qualitative approach. This revised guidance also requires additional disclosures about a reporting entity s involvement in variable interest entities. This guidance is effective for the Company beginning January 1, 2010. The Company does not expect the adoption of this update to have a significant impact on the Company s results of operations, financial position or cash flows; however, due to evolving interpretations of this guidance, the Company has not fully completed its assessment.

Transfers of Financial Assets

In June 2009, the FASB issued authoritative guidance that amends current guidance for accounting for the transfers of financial assets. Key provisions include (i) the removal of the concept of qualifying special purpose entities, (ii) the introduction of the concept of a participating interest, in which a portion of a financial asset has been transferred and (iii) the requirement that to qualify for sale accounting, the transferor must evaluate whether it maintains effective control over transferred financial assets either directly or indirectly. Further, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. This guidance is effective for the Company beginning January 1, 2010, and is required to be applied prospectively. The Company does not expect the adoption of this update to have an impact on the Company s results of operations, financial position or cash flows.

Subsequent Events

In May 2009 and clarified in February 2010, the FASB issued authoritative guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This standard sets forth: (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions, (ii) the circumstances under which an entity should recognize events or transactions and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

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Fair Value of Financial Instruments Disclosures

In April 2009, the FASB issued revised authoritative guidance to require disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This amendment is effective for interim reporting periods ending after June 15, 2009. In periods after initial adoption, this guidance requires comparative disclosures only for periods ending after initial adoption. As this revised guidance provides for additional disclosure requirements only, the adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

Recognition and Presentation of Other-Than-Temporary Impairments

In April, 2009, the FASB amended authoritative guidance related to the impairment of certain debt securities and will require an entity to assess whether it (i) has the intent to sell the debt security or (ii) more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, the entity must recognize an other-than-temporary impairment. If an entity is able to meet the criteria to assert that it will not have to sell the security before recovery, impairment charges related to credit losses would be recognized in earnings, while impairment charges related to non-credit losses (for example, liquidity risk) would be reflected in other comprehensive income. The amended guidance is effective for interim reporting periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

Contingencies Acquired in a Business Combination

In April 2009, the FASB amended and clarified the authoritative guidance related to accounting for the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination. Assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value can not be determined, companies should account for the acquired contingencies using existing guidance. This guidance is effective for the Company for business combinations finalized after January 1, 2009.

Pension and Other Postretirement Benefit Plan Asset Disclosures

In December 2008, the FASB issued authoritative guidance that requires additional disclosures for employers pension and other postretirement benefit plan assets. This guidance requires employers to disclose information about fair value measurements of plan assets, the investment policies and strategies for the major categories of plan assets, and significant concentrations of risk within plan assets. This guidance is effective for the Company as of December 31, 2009. As this guidance provides only disclosure requirements, its adoption did not have an impact on the Company s results of operations, financial position or cash flows.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007 and clarified in January 2010, the FASB issued authoritative guidance clarifying that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. With certain exceptions, this guidance requires that changes in a parent s ownership interest in a subsidiary or group of assets that is a business or a nonprofit activity be reported as an equity transaction in the consolidated financial statements when it does not result in a change in control. When change in a parent s ownership interest results in deconsolidation, a gain or loss should be recognized in the consolidated financial statements. This guidance was applied prospectively as of January 1, 2009, except for the presentation and disclosure requirements, which were applied retrospectively for all periods presented. The adoption of this guidance did not have a material impact on the Company s results of operations, cash flows or financial positions; however, it could impact future transactions entered into by the Company. As a

result of the adoption of this guidance, beginning in the first quarter of 2009, the Company reflects its subsidiaries preferred stock without mandatory redemption requirements in its consolidated financial statements within equity. The Company reclassified these preferred shares to equity within the Company s Consolidated Balance Sheets and Statements of Changes in Stockholders Equity for all periods presented. In the Company s 2008 Form 10-K, these preferred shares were presented as preferred stock without mandatory redemption requirements separate from equity within the Company s Consolidated Balance Sheets. The dividends on these preferred shares have not been reflected separately on the Company s Statements of Operations or the Company s Statements of Comprehensive Loss, as the amounts are not considered material.

See Note 2 Significant Accounting Policies in the notes to the audited consolidated financial statements for a discussion of new accounting standards recently adopted or pending adoption.

ITEM 7A. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk associated with changes in commodity prices, equity prices and interest rates. We use a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. As of December 31, 2009, a hypothetical 10% increase in interest rates associated with variable-rate debt would result in a $0.9 million decrease in our pre-tax earnings. Our risks associated with price increases for chemicals, electricity and other commodities are reduced through contractual arrangements and the ability to recover price increases through rates. Non-performance by these commodity suppliers could have a material adverse impact on our results of operations, cash flows and financial position.

Our common stock began trading on the New York Stock Exchange on April 23, 2008. The market price of our common stock may experience fluctuations, many of which are unrelated to our operating performance. In particular, our stock price may be affected by general market movements as well as developments specifically related to the water and wastewater industry. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts and governmental or regulatory actions. This volatility may make it difficult for us to access the capital markets in the future through additional offerings of our common stock, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet business obligations.

We are exposed to credit risk through our water, wastewater and other water-related activities for both our Regulated and Non-Regulated Businesses. Our Regulated Businesses serve residential, commercial, industrial and municipal customers while our Non-Regulated Businesses engage in business activities with developers, government entities and other customers. Our primary credit risk is exposure to customer default on contractual obligations and the associated loss that may be incurred due to the non-payment of customer account receivable balances. Our credit risk is managed through established credit and collection policies which are in compliance with applicable regulatory requirements and involve monitoring of customer exposure and the use of credit risk mitigation measures such as letters of credit or prepayment arrangements. Our credit portfolio is diversified with no significant customer or industry concentrations. In addition, our Regulated Businesses are generally able to recover all prudently incurred costs including uncollectible customer accounts receivable expenses and collection costs through rates.

The Company s retirement trust assets are exposed to the market prices of debt and equity securities. Changes to the retirement trust asset value can impact the Company s pension and other benefits expense, funded status and future minimum funding requirements. Our risk is reduced through our ability to recover pension and other benefit costs through rates. In addition, pension and other benefits liabilities decrease as fixed income asset values decrease (fixed income yields rise) since the rate at which we discount pension and other retirement trust asset future obligations is highly correlated to fixed income yields.

We are also exposed to a potential national economic recession or further deterioration in local economic conditions in the markets in which we operate. The credit quality of our customer accounts receivable is

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dependent on the economy and the ability of our customers to manage through unfavorable economic cycles and other market changes. In addition, as a result of the downturn in the economy and heightened sensitivity of the impact of additional rate increases on certain customers, there can be no assurances that regulators will grant sufficient rate authorizations. Therefore our ability to fully recover operating expense, recover our investment and provide an appropriate return on invested capital made in our Regulated Businesses may be adversely impacted.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

American Water Works Company, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows, of changes in common stockholders equity, and of comprehensive income (loss) present fairly, in all material respects, the financial position of American Water Works Company, Inc. and Subsidiary Companies at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our audits (which was an integrated audit in 2009). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

March 1, 2010

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets

(In thousands, except per share data)

	December 31,	
	2009	**2008**
ASSETS		
Property, plant and equipment		
Utility plant at original cost, net of accumulated depreciation of $3,168,078 in 2009 and $2,969,869 in 2008	$ 10,523,844	$ 9,991,783
Nonutility property, net of accumulated depreciation of $117,245 in 2009 and $101,287 in 2008	153,549	132,145
Total property, plant and equipment	10,677,393	10,123,928
Current assets		
Cash and cash equivalents	22,256	9,542
Restricted funds	41,020	454
Utility customer accounts receivable	149,417	149,198
Allowance for uncollectible accounts	(19,035)	(18,644)
Unbilled utility revenues	130,262	134,204
Non-regulated trade and other receivables, net	75,086	68,877
State income taxes receivable	17,920	
Materials and supplies	29,521	28,948
Other	52,680	45,096
Total current assets	499,127	417,675
Regulatory and other long-term assets		
Regulatory assets	952,020	919,654
Restricted funds	20,212	10,599
Goodwill	1,250,381	1,699,517
Other	53,518	60,445
Total regulatory and other long-term assets	2,276,131	2,690,215
TOTAL ASSETS	$ 13,452,651	$ 13,231,818

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

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (Continued)

(In thousands, except per share data)

	December 31, 2009	December 31, 2008
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($.01 par value, 500,000 shares authorized, 174,630 shares outstanding in 2009 and 160,000 in 2008)	$ 1,746	$ 1,600
Paid-in capital	6,140,077	5,888,253
Accumulated deficit	(2,076,287)	(1,705,594)
Accumulated other comprehensive loss	(64,677)	(82,251)
Treasury stock		(7)
Common stockholders equity	4,000,859	4,102,001
Preferred stock without mandatory redemption requirements	4,557	4,557
Total stockholders equity	4,005,416	4,106,558
Long-term debt		
Long-term debt	5,288,180	4,624,063
Redeemable preferred stock at redemption value	23,946	24,150
Total capitalization	9,317,542	8,754,771
Current liabilities		
Short-term debt	119,497	479,010
Current portion of long-term debt	54,068	175,822
Accounts payable	138,609	149,795
Taxes accrued, including income taxes of $1,777 in 2009 and $6,061 in 2008	45,552	52,488
Interest accrued	60,128	53,629
Other	189,538	194,016
Total current liabilities	607,392	1,104,760
Regulatory and other long-term liabilities		
Advances for construction	633,509	622,227
Deferred income taxes	851,677	705,587
Deferred investment tax credits	32,590	34,023
Regulatory liabilities	322,281	307,324
Accrued pension expense	431,010	502,062
Accrued postretirement benefit expense	236,045	241,193
Other	47,325	48,456
Total regulatory and other long-term liabilities	2,554,437	2,460,872
Contributions in aid of construction	973,280	911,415
Commitments and contingencies (See Note 16)		
TOTAL CAPITALIZATION AND LIABILITIES	$ 13,452,651	$ 13,231,818

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

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Operations

(In thousands, except per share data)

	Years Ended December 31,		
	2009	**2008**	**2007**
Operating revenues	$ 2,440,703	$ 2,336,928	$ 2,214,215
Operating expenses			
Operation and maintenance	1,324,355	1,303,798	1,246,479
Depreciation and amortization	294,240	271,261	267,335
General taxes	199,262	199,139	183,253
Gain on sales of assets	(763)	(374)	(7,326)
Impairment charge	450,000	750,000	509,345
Total operating expenses, net	2,267,094	2,523,824	2,199,086
Operating income (loss)	173,609	(186,896)	15,129
Other income (deductions)			
Interest, net	(296,545)	(285,155)	(283,165)
Allowance for other funds used during construction	11,486	14,497	7,759
Allowance for borrowed funds used during construction	7,224	8,171	3,449
Amortization of debt expense	(6,647)	(5,895)	(4,867)
Other, net	(792)	4,684	6,176
Total other income (deductions)	(285,274)	(263,698)	(270,648)
Loss from continuing operations before income taxes	(111,665)	(450,594)	(255,519)
Provision for income taxes	121,418	111,827	86,756
Loss from continuing operations	(233,083)	(562,421)	(342,275)
Loss from discontinued operations, net of tax			(551)
Net loss	$ (233,083)	$ (562,421)	$ (342,826)
Basic earnings per common share:			
Loss from continuing operations	$ (1.39)	$ (3.52)	$ (2.14)
Loss from discontinued operations, net of tax	$	$	$ (0.00)
Net loss	$ (1.39)	$ (3.52)	$ (2.14)
Diluted earnings per common share:			
Loss from continuing operations	$ (1.39)	$ (3.52)	$ (2.14)
Loss from discontinued operations, net of tax	$	$	$ (0.00)
Net loss	$ (1.39)	$ (3.52)	$ (2.14)

Average common shares outstanding during the period:			
Basic	168,164	159,967	160,000
Diluted	168,164	159,967	160,000
Dividends per common share	$ 0.82	$ 0.40	$

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

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Cash Flows

(In thousands, except per share data)

	Years Ended December 31,		
	2009	**2008**	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (233,083)	$ (562,421)	$ (342,826)
Adjustments			
Depreciation and amortization	294,240	271,261	267,335
Impairment charge	450,000	750,000	509,345
Amortization of removal costs net of salvage	40,919	41,515	38,442
Provision for deferred income taxes	140,821	95,643	41,918
Amortization of deferred investment tax credits	(1,433)	(1,338)	(1,510)
Provision for losses on utility accounts receivable	21,781	17,267	17,553
Allowance for other funds used during construction	(11,486)	(14,497)	(7,759)
Gain on sale of assets	(763)	(374)	(7,326)
Gain on early extinguishment of debt			(13,113)
Pension and non-pension post retirement benefits	106,901	51,571	49,693
Other, net	(24,154)	3,072	(13,565)
Changes in assets and liabilities			
Receivables and unbilled utility revenues	(18,751)	(20,702)	(35,097)
Taxes receivable, including income taxes	(17,920)	23,111	(23,111)
Other current assets	(6,737)	(11,194)	(1,171)
Pension and non-pension post retirement benefit contributions	(127,446)	(105,053)	(81,245)
Accounts payable	52	2,978	6,860
Taxes accrued, including income taxes	(13,321)	13,460	42,430
Interest accrued	6,499	2,790	16,092
Other current liabilities	(9,963)	(4,920)	10,767
Net cash provided by operating activities	596,156	552,169	473,712
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(785,265)	(1,008,806)	(750,810)
Acquisitions	(18,144)	(12,512)	(15,877)
Proceeds from sale of assets and securities	1,237	12,604	16,346
Proceeds from sale of discontinued operations			9,660
Removal costs from property, plant and equipment retirements, net	(29,900)	(24,793)	(9,852)
Net funds released	129,711	2,457	5,829
Other	(1,250)	(2,617)	(1,874)
Net cash used in investing activities	(703,611)	(1,033,667)	(746,578)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	542,926	279,941	3,869,109
Repayment of long-term debt	(178,131)	(241,500)	(2,350,725)
Proceeds from issuance of common stock (net of expenses of $7,824)	242,301		
Net (repayments) borrowings under short-term debt agreements	(352,005)	258,684	(541,623)
Proceeds from employee stock plan issuances	2,089	836	
Advances and contributions for construction, net of refunds of $27,481 in 2009, $57,580 in 2008 and $36,963 in 2007	21,211	3,078	35,846
Change in cash overdraft position	(7,508)	(188)	42,198
Capital contributions		245,000	967,092
Debt issuance costs	(13,165)	(4,008)	(14,916)
Redemption of preferred stocks	(218)	(229)	(1,750,388)
Dividends paid	(137,331)	(64,055)	

Net cash provided by financing activities	120,169	477,559	256,593
Net increase (decrease) in cash and cash equivalents	12,714	(3,939)	(16,273)
Cash and cash equivalents at beginning of period	9,542	13,481	29,754
Cash and cash equivalents at end of period	$ 22,256	$ 9,542	$ 13,481
Cash paid during the year for:			
Interest, net of capitalized amount	$ 303,958	$ 294,508	$ 295,707
Income taxes, net of refunds of $2,754 in 2009, $40,400 in 2008 and $16,111 in 2007	$ 11,205	$ (22,161)	$ 17,823
Non-cash investing activity			
Capital expenditures acquired on account but unpaid as of year-end	$ 59,219	$ 72,657	$ 94,930
Non-cash financing activity			
Advances and contributions	$ 77,094	$ 83,041	$ 101,226
Long-term debt (See Note 11)	$ 179,931	$	$
Capital contribution (See Note 11)	$	$	$ 100,000

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

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Changes in Stockholders Equity

(In thousands, except per share data)

	Common Stock					Treasury Stock			
	Shares	**Par Value**	**Paid-in Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Shares**	**At Cost**	**Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements**	**Total Stockholders Equity**
Balance at December 31, 2006	160,000	$ 1,600	$ 4,570,855	$ (736,292)	$ (18,766)		$	$ 4,568	$ 3,821,965
Net loss				(342,826)					(342,826)
Equity investment by RWE			1,067,092						1,067,092
Other comprehensive income (loss), net of tax of $660					383				383
Balance at December 31, 2007	160,000	$ 1,600	$ 5,637,947	$ (1,079,118)	$ (18,383)		$	$ 4,568	$ 4,546,614
Net loss				(562,421)					(562,421)
Equity investment by RWE			245,000						245,000
Contribution of common stock by RWE			1,933			(90)	(1,933)		
Stock-based compensation activity			3,373			90	1,926		5,299
Subsidiary preferred stock redemption								(11)	(11)
Other comprehensive income (loss), net of tax of ($40,990)					(63,868)				(63,868)
Dividends				(64,055)					(64,055)
Balance at December 31, 2008	160,000	$ 1,600	$ 5,888,253	$ (1,705,594)	$ (82,251)		$ (7)	$ 4,557	$ 4,106,558
Net loss				(233,083)					(233,083)
Common stock offering, net of expenses of $7,824	14,500	145	242,156						242,301
Stock-based compensation activity	130	1	9,668	(279)			7		9,397
Other comprehensive income (loss), net of tax of $10,242					17,574				17,574
Dividends				(137,331)					(137,331)
Balance at December 31, 2009	174,630	$ 1,746	$ 6,140,077	$ (2,076,287)	$ (64,677)		$	$ 4,557	$ 4,005,416

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

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Comprehensive Income (Loss)

(In thousands, except per share data)

	Years Ended December 31		
	2009	**2008**	**2007**
Net loss	$ (233,083)	$ (562,421)	$ (342,826)
Change in employee benefit plan funded status, net of tax of $6,381, ($41,007) and $591, respectively	9,981	(64,139)	924
Pension plan amortized to periodic benefit cost:			
Prior service cost, net of tax of $29, $17 and $23, respectively	46	26	36
Actuarial loss, net of tax of $3,832, $0 and $46, respectively	5,994	1	72
Foreign currency translation adjustment	1,553	244	(649)
Total comprehensive loss	$ (215,509)	$ (626,289)	$ (342,443)

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

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American Water Works Company, Inc. and Subsidiary Companies

Notes to Consolidated Financial Statements

(In thousands, except per share data)

Note 1: Organization and Operation

American Water Works Company, Inc. (AWW) and its subsidiaries (collectively referred to herein as the Company) is the holding company for regulated and non-regulated subsidiaries throughout the United States of America and two Canadian provinces. The regulated subsidiaries provide water and wastewater services and, as public utilities, function under rules and regulations prescribed by state regulators. These regulated subsidiaries have similar long-term economic characteristics and are operationally segregated into the 20 U.S. states in which the Company operates regulated utilities. The non-regulated subsidiaries include various lines of business including Homeowner Services, which provides water and sewer line protection plans for homeowners; the Operations and Maintenance contracts group, which conducts operation and maintenance of water and wastewater facilities for municipalities and the U.S. Military, among others; and Carbon Regeneration, which sells granular activated carbon technologies to help remove contaminants and improve the quality of drinking water.

Note 2: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AWW and its subsidiaries. Intercompany balances and transactions between subsidiaries have been eliminated. The Company uses the equity method to report its investments in two joint venture investments in each of which the Company holds a 50% voting interest and cannot exercise control over the operations and policies of the investments. Under the equity method, the Company records its interests as an investment and its percentage share of earnings as earnings or losses of investee.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company considers benefit plan assumptions; the carrying values of goodwill and other long-lived assets, including regulatory assets; revenue recognition; and accounting for income taxes to be its critical accounting estimates. The Company s significant estimates that are particularly sensitive to change in the near term are amounts reported for pension and other postemployment benefits, contingency-related obligations and goodwill.

Regulation

The Company s regulated utilities are subject to regulation by the public utility commissions and the local governments of the states in which they operate (the Regulators). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of costs and credits as regulatory assets and liabilities is in accordance with authoritative guidance applicable to those companies whose rates are established by or are subject to approval by an independent third-party regulator. Regulated utilities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in operations by an non-regulated company. These deferred regulatory assets and liabilities are then reflected in the statement of operations in the period in which the costs and credits are reflected in the rates charged for service. (See Note 7)

Property, Plant and Equipment

Property, plant and equipment consist primarily of utility plant. Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of these costs amounted to $47,279 and $35,971 at December 31, 2009 and 2008, respectively. The cost of repairs; maintenance, including planned major maintenance activities; and minor replacements of property is charged to maintenance expense as incurred.

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates, until the costs to retire those assets are incurred.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method.

Nonutility property consists primarily of buildings and equipment utilized by the Company for internal operations. This property is stated at cost, net of accumulated depreciation calculated using the straight-line method over the estimated useful lives of the assets, ranging from three to fifty years.

Cash and Cash Equivalents

Substantially all cash is invested in interest-bearing accounts. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

The Company had book overdrafts for certain of its disbursement accounts of $34,502 and $42,010 at December 31, 2009 and 2008, respectively. A book overdraft represents transactions that have not cleared the bank accounts at the end of the period. The Company transfers cash on an as-needed basis to fund these items as they clear the bank. The balance of the book overdraft is reported as short-term debt and the change in the book overdraft balance is reported as cash flows from financing activities.

Restricted Funds

Restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operation and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within 12 months subsequent to year-end are classified as current.

Utility Customer Accounts Receivable

Regulated utility customer accounts receivable represent amounts billed to water and wastewater customers on a cycle basis. Credit is extended based on the guidelines of the applicable Regulators and generally, collateral is not required.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company s inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for

uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company writes off accounts when they become uncollectible. (See Note 5)

Non-regulated Trade and Other Receivables, Net

Non-regulated trade and other receivables, net consists of non-regulated trade accounts receivable and non-regulated unbilled revenues, net of a reserve for doubtful accounts, and non-utility customer receivables of the regulated subsidiaries. In determining the reserve for uncollectible non-regulated accounts, the Company considers the length of time the trade accounts receivable are past due and the customers current ability to pay their obligations. Unbilled receivables are accrued when service has been provided but has not been billed to customers. (See Note 6)

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method.

Goodwill

The Company considers the carrying value of goodwill to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to value goodwill to be appropriate. However, if experience differs from the assumptions and considerations used in its analysis, the resulting change could have a material adverse impact on the consolidated financial statements.

Goodwill is primarily associated with the acquisitions of American Water Works Company, Inc. in 2003 and E town Corporation in 2001 (the Acquisitions) and has been assigned to reporting units based on the fair values at the date of the Acquisitions. The regulated utility subsidiaries have been aggregated and deemed a single reporting unit as they have similar economic characteristics. In the non-regulated segment, the business is organized into seven reporting units for its non-regulated services. Goodwill 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 of the calendar year, in conjunction with the timing of the completion of the Company s annual strategic business plan.

For each of the years ended December 31, 2009, 2008 and 2007, the Company determined that its goodwill was impaired and recorded impairments of $450,000, $750,000, and $509,345, respectively. (See Note 8)

Long-Lived Assets

The Company considers the carrying value of long-lived assets to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to evaluate the carrying value of long-lived assets to be appropriate. However, if actual experience differs from the assumptions and considerations used in its estimates, the resulting change could have a material adverse impact on the consolidated financial statements.

Long-lived assets, other than goodwill, include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land, are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, the Company estimates the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets and compares that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recorded.

The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset s carrying value exceeds its fair value.

The long-lived assets of the regulated utility subsidiaries are grouped on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The Company holds other investments including investments in privately held companies and investments in joint ventures accounted for using the equity method. The Company s investments in privately held companies and joint ventures are classified as other long-term assets.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which the Company invests, as well as volatility inherent in the external markets. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset s carrying value exceeds its fair value.

Advances and Contributions in Aid of Construction

Regulated utility subsidiaries may receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Included in other current liabilities at December 31, 2009 and 2008 in the accompanying balance sheets are estimated refunds of $34,207 and $32,305, respectively. Those amounts represent expected refunds during the next 12-month period. Advances which are no longer refundable are reclassified to contributions in aid of construction. Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represent non-investor supplied funds. Non-cash utility property has been received, primarily from developers, as advances or contributions of $77,094, $83,041 and $101,226 for the years ended December 31, 2009, 2008 and 2007, respectively.

Generally, the Company depreciates utility plant funded by contributions and amortizes its contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Certain of the Company s subsidiaries do not depreciate contributed property, based on regulatory guidelines. Amortization of contributions in aid of construction was $20,227, $20,219 and $20,720 for the years ended December 31, 2009, 2008 and 2007, respectively.

Recognition of Revenues

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are provided and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period.

The Company has agreements with the United States Government to operate and maintain water and wastewater systems at various military bases pursuant to 50-year contracts (military agreements). These contracts also include construction components that are accounted for separately from the operations and management components. The military agreements are subject to periodic price redetermination adjustments and modifications for changes in circumstance. Additionally, the Company has agreements ranging in length from three to 40 years with various municipalities to operate and maintain water and wastewater systems (O&M agreements). Revenue from operations and management services are recognized as services are provided. (See Note 16)

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Construction Contracts

Revenues from construction projects are recognized over the contract term based on the estimated percentage of completion during the period compared to the total estimated services to be provided over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Under these agreements, revenues were $28,796, $47,889 and $32,141 and operation and maintenance expenses were $25,060, $44,227 and $34,543 as of December 31, 2009, 2008 and 2007, respectively. Included in the amounts are construction revenues of $5,614, $25,766 and $12,902 and operation and maintenance expenses of $5,439, $24,852 and $12,601 related to the Company s Fillmore contract at December 31, 2009, 2008, and 2007, respectively. The construction phase of the contract was substantially complete and in service at December 31, 2009.

Income Taxes

The parent company and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, the regulated utility subsidiaries recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Investment tax credits have been deferred by the regulated utility subsidiaries and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense.

The Company accounts for sales tax collected from customers and remitted to taxing authorities on a net basis.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash credit to income with a corresponding charge to utility plant which represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. The regulated utility subsidiaries record AFUDC to the extent permitted by the Regulators.

Environmental Costs

The Company s water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition

caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $7,947 and $10,538 at December 31, 2009 and 2008, respectively. At December 31, 2009, $7,700 of the accrual (including $1,100 accrued in 2009) relates to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company paid $3,500 related to this agreement during 2009, and has agreed to pay $1,100 annually from July 2010 to July 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates.

New Accounting Standards

Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires new disclosures of (i) the amounts of significant transfers into and out of Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers and (ii) information in the reconciliation of recurring Level 3 measurements (those using significant unobservable inputs) about purchases, sales, issuances, and settlements on a gross basis. This update also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of Level 3 measurements, which does not become effective until interim and annual periods beginning after December 15, 2010. As this guidance clarifies and provides for additional disclosure requirements only, the adoption of this guidance is not expected to have an impact on the Company s results of operations, financial position or cash flows.

In August 2009, the FASB issued authoritative guidance clarifying the measurement of the fair value of liabilities. The amendments reduce potential ambiguity in financial reporting when measuring the fair value of liabilities and help to improve consistency in the application of authoritative guidance. This update is effective for the first reporting period, including interim periods, beginning after issuance, which for the Company was October 1, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

In April 2009, the FASB provided additional guidance on fair value measurements in inactive markets when the volume and level of activity for the asset and liability have significantly decreased. This amendment also includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance is effective for interim reporting periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows. (See Note 18)

In February 2008, the FASB issued guidance that allowed a one-year deferral of adoption of the guidance for nonfinancial assets and nonfinancial liabilities (such as intangible assets, property, plant and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The Company elected to use this deferral option and accordingly, adopted this guidance for the Company s nonfinancial assets and liabilities valued on a non-recurring basis on January 1, 2009. The adoption of this guidance did not have a significant impact on the Company s results of operations, financial position or cash flows.

Accounting Standards Codification

In June 2009, the FASB issued authoritative guidance that establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative U.S. GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other

non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. This guidance is effective for interim and annual periods ending after September 15, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued authoritative guidance that replaces the quantitative-based risk and rewards calculation for determining which reporting entity has a controlling financial interest in a variable interest entity with a qualitative approach. This revised guidance also requires additional disclosures about a reporting entity s involvement in variable interest entities. This guidance is effective for the Company beginning January 1, 2010. The Company does not expect the adoption of this update to have a significant impact on the Company s results of operations, financial position or cash flows; however, due to evolving interpretations of this guidance, the Company has not fully completed its assessment.

Transfers of Financial Assets

In June 2009, the FASB issued authoritative guidance that amends current guidance for accounting for the transfers of financial assets. Key provisions include (i) the removal of the concept of qualifying special purpose entities, (ii) the introduction of the concept of a participating interest, in which a portion of a financial asset has been transferred and (iii) the requirement that to qualify for sale accounting, the transferor must evaluate whether it maintains effective control over transferred financial assets either directly or indirectly. Further, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. This guidance is effective for the Company beginning January 1, 2010, and is required to be applied prospectively. The Company does not expect the adoption of this update to have an impact on the Company s results of operations, financial position or cash flows.

Subsequent Events

In May 2009 and clarified in February 2010, the FASB issued authoritative guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This standard sets forth: (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions, (ii) the circumstances under which an entity should recognize events or transactions and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

Fair Value of Financial Instruments Disclosures

In April 2009, the FASB issued revised authoritative guidance to require disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This amendment is effective for interim reporting periods ending after June 15, 2009. In periods after initial adoption, this guidance requires comparative disclosures only for periods ending after initial adoption. As this revised guidance provides for additional disclosure requirements only, the adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

Recognition and Presentation of Other-Than-Temporary Impairments

In April, 2009, the FASB amended authoritative guidance related to the impairment of certain debt securities and will require an entity to assess whether it (i) has the intent to sell the debt security or (ii) more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, the entity must recognize an other-than-temporary impairment. If an entity is able to meet the criteria to assert that it will not have to sell the security before recovery, impairment charges related to credit

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losses would be recognized in earnings, while impairment charges related to non-credit losses (for example, liquidity risk) would be reflected in other comprehensive income. The amended guidance is effective for interim reporting periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

Contingencies Acquired in a Business Combination

In April 2009, the FASB amended and clarified the authoritative guidance related to accounting for the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination. Assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value can not be determined, companies should account for the acquired contingencies using existing guidance. This guidance is effective for the Company for business combinations finalized after January 1, 2009.

Pension and Other Postretirement Benefit Plan Asset Disclosures

In December 2008, the FASB issued authoritative guidance that requires additional disclosures for employers pension and other postretirement benefit plan assets. This guidance requires employers to disclose information about fair value measurements of plan assets, the investment policies and strategies for the major categories of plan assets, and significant concentrations of risk within plan assets. This guidance is effective for the Company as of December 31, 2009. As this guidance provides only disclosure requirements, its adoption did not have an impact on the Company s results of operations, financial position or cash flows.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007 and clarified in January 2010, the FASB issued authoritative guidance clarifying that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. With certain exceptions, this guidance requires that changes in a parent s ownership interest in a subsidiary or group of assets that is a business or a nonprofit activity be reported as an equity transaction in the consolidated financial statements when it does not result in a change in control. When change in a parent s ownership interest results in deconsolidation, a gain or loss should be recognized in the consolidated financial statements. This guidance was applied prospectively as of January 1, 2009, except for the presentation and disclosure requirements, which were applied retrospectively for all periods presented. The adoption of this guidance did not have a material impact on the Company s results of operations, cash flows or financial positions; however, it could impact future transactions entered into by the Company. As a result of the adoption of this guidance, beginning in the first quarter of 2009, the Company reflects its subsidiaries preferred stock without mandatory redemption requirements in its consolidated financial statements within equity. The Company reclassified these preferred shares to equity within the Company s Consolidated Balance Sheets and Statements of Changes in Stockholders Equity for all periods presented. In the Company s 2008 Form 10-K, these preferred shares were presented as preferred stock without mandatory redemption requirements separate from equity within the Company s Consolidated Balance Sheets. The dividends on these preferred shares have not been reflected separately on the Company s Statements of Operations or the Company s Statements of Comprehensive Loss, as the amounts are not considered material.

Reclassifications

Certain reclassifications have been made to conform previously reported data to the current presentation.

Note 3: Acquisitions and Divestitures

Acquisitions

During 2009, the Company closed on seven acquisitions (six regulated water and wastewater systems, and one in its non-regulated segment) for an aggregate purchase price of $18,144. The purchase price for each

acquisition was allocated to the net tangible and intangible assets based upon their estimated fair values at the acquisition date. Assets acquired totaled $29,462, including plant and equipment of $17,843, current assets of $5,857, goodwill of $606, and long-lived assets of $5,156. Liabilities assumed totaled $11,318, including debt of $3,990, current liabilities of $5,732, long-term liabilities of $970, and contributions in aid of construction of $626.

During 2008, the Company closed on acquisitions of 10 regulated water and wastewater systems, for an aggregate purchase price of $12,512, including transaction costs of $2,622. Assets acquired (primarily plant and equipment) totaled $16,291, and liabilities assumed were $3,779 of contributions in aid of construction.

During 2007, the Company acquired nine regulated water systems for a total aggregate purchase price of $15,877. Included in this total was the Company s acquisition on November 1, 2007 of all of the capital stock of S.J. Services, Inc. (SJS) for $13,458. The acquisition was accounted for as a business combination. Accordingly, operating results of SJS from November 1, 2007 were included in the Company s results of operations. The purchase price was allocated to the net tangible and intangible assets based upon their estimated fair values at the date of acquisition. Total SJS assets acquired were $23,420, including $4,727 of goodwill (See Note 8), and liabilities assumed totaled $9,962, including long-term debt of $2,791 and contributions in aid of construction of $5,566.

Also during 2007, the Company s New Jersey subsidiary entered into an agreement with the City of Trenton, New Jersey to purchase the assets of the City s water system located in the four surrounding townships. The agreement required approval from the New Jersey Regulator. The initial proposed purchase price of $100,000 was subsequently amended to $75,000 plus the provision of technical services from the City over seven years to ensure a smooth transition of ownership at a total cost of $5,000. Since February 2009, a small group of City residents (Petitioners) has been involved in litigation with City and NJAWC seeking to force the sale to a referendum. In April 2009, the New Jersey Regulator issued an order, which was extended on December 1, 2009, approving the stipulation of the parties (the Stipulation); however, the effective date of the Stipulation is automatically stayed pending resolution of court proceedings. On December 19, 2009, a New Jersey Superior Court Appellate Division panel unanimously upheld lower trial court rulings affirming the City and the Company s position. The New Jersey Supreme Court (Supreme Court) has granted Petitioners request for certification and oral argument is scheduled before the Supreme Court on March 22, 2010. The Company can provide no assurance as to the outcome of the litigation. The Stipulation includes the Company s agreement to purchase finished water from the City for the next 20 years under a water supply agreement. The acquisition is expected to add approximately forty thousand customers to the Company s customer base. Included in other current assets is a $10,000 refundable deposit the Company made in December 2007 that is being held in an interest bearing escrow account as required by the bidding process.

Divestitures

In September of 2008, the Company s California subsidiary completed its transfer of ownership of the Felton water system to the San Lorenzo Valley Water District (SLVWD). Under the terms of the agreement, SLVWD paid $13,400 for the operating assets of the water system that serves approximately 1,330 customers. The payment included a $10,568 cash payment and the assumption of $2,832 in debt. Including goodwill, the Company recognized a loss of $381 on the sale of these assets. (See Note 8)

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Note 4: Utility Plant

The components of utility plant by category at December 31 are as follows:

	Range of Remaining Useful Lives	2009	2008
Water plant			
Land and other non-depreciable assets		$ 144,295	$ 144,624
Sources of supply	7 to 127 Years	564,886	512,222
Treatment and pumping facilities	3 to 101 Years	2,675,718	2,514,155
Transmission and distribution facilities	9 to 127 Years	6,290,578	5,940,177
Services, meters and fire hydrants	4 to 96 Years	2,363,394	2,224,568
General structures and equipment	3 to 112 Years	645,727	656,043
Wastewater plant	4 to 86 Years	702,725	630,983
Construction work in progress		304,599	338,880
		13,691,922	12,961,652
Less accumulated depreciation		3,168,078	2,969,869
		$ 10,523,844	$ 9,991,783

Utility plant depreciation expense amounted to $262,825 in 2009, $267,763 in 2008 and $263,737 in 2007.

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.68% in 2009, 2.93% in 2008 and 3.11% in 2007.

Note 5: Allowance for Uncollectible Accounts

The following table summarizes the changes in the Company s allowances for uncollectible accounts:

	2009	2008	2007
Balance at January 1	$ (18,644)	$ (20,923)	$ (23,061)
Amounts charged to expense	(21,781)	(17,267)	(17,553)
Amounts written off	25,079	22,583	22,192
Recoveries of amounts written off	(3,689)	(3,037)	(2,501)
Balance at December 31	$ (19,035)	$ (18,644)	$ (20,923)

Note 6: Non-regulated Trade and Other Receivables, Net

Components of the Company s non-regulated trade and other receivables, net at December 31 are as follows:

	2009	2008
Non-regulated trade accounts receivable	$ 33,945	$ 29,613
Allowance for doubtful accounts non-regulated trade accounts receivable	(3,837)	(5,221)
Non-regulated unbilled revenue	15,678	16,602
Other	29,300	27,883

	$ 75,086	$ 68,877

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The following table summarizes the changes in the Company s non-regulated allowances for uncollectible accounts:

	2009	2008	2007
Balance at January 1	$ (5,221)	$ (5,567)	$ (9,345)
Amounts (charged) credited to expense	(259)	(1,587)	1,597
Amounts written off	1,805	1,942	2,184
Recoveries of amounts written off	(162)	(9)	(3)
Balance at December 31	$ (3,837)	$ (5,221)	$ (5,567)

Note 7: Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Except for income taxes, regulatory assets are excluded from the Company s rate base and do not earn a return. The components of regulatory assets at December 31 are as follows:

	2009	2008
Income taxes recoverable through rates	$ 233,806	$ 231,439
Debt and preferred stock expense	75,693	67,271
Deferred pension expense	209,288	237,665
Deferred other postretirement benefit expense	141,830	136,937
Deferred security costs	10,121	12,763
Deferred business services project expense	12,496	14,322
Deferred tank painting costs	24,705	22,347
Deferred rate case expense	10,919	14,000
Purchase premium recoverable through rates	61,101	61,003
Environmental remediation recoverable through rates	7,700	6,600
Coastal water project costs	21,056	18,262
San Clemente Dam project costs	16,392	15,341
Removal costs recoverable through rates	46,090	35,097
Other	80,823	46,607
	$ 952,020	$ 919,654

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the regulatory authorities of full normalization for rate making purposes. Full normalization requires no flow through of tax benefits to customers. The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Pension expense in excess of the amount contributed to the pension plans is deferred by certain subsidiaries. These costs will be recovered in future service rates as contributions are made to the pension plan. The Company

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also has regulatory assets of $166,441 and $198,506 at December 31, 2009 and 2008, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

Postretirement benefit expense in excess of the amount recovered in rates through 1997 has been deferred by certain subsidiaries. These costs are recognized in the rates charged for water service and will be fully recovered over a 20-year period ending in 2012 as authorized by the regulatory authorities. The Company has regulatory assets of $134,180 and $131,300 at December 31, 2009 and 2008, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

The cost of additional security measures that were implemented to protect facilities after the terrorist attacks on September 11, 2001 has been deferred by certain subsidiaries. These costs are recognized in the rates charged for water service by certain subsidiaries. These costs are being recovered over periods ranging from five to ten years.

Business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that began operations in 2001. These costs are recognized in the rates charged for water service by certain subsidiaries.

Tank painting costs are generally deferred and amortized to current operations on a straight-line basis over periods ranging from 5 to 15 years, as authorized by the regulatory authorities in their determination of rates charged for service.

The Company amortizes rate case expenditures over regulatory approved amortization periods, typically three years. Rate case proceeding expenditures probable of future recovery are deferred.

Purchase premium recoverable through rates is primarily the recovery of the acquisition premiums related to an asset acquisition by the Company s California subsidiary during 2002, and acquisitions in 2007 by the Company s New Jersey subsidiary. As authorized for recovery by the California and New Jersey Regulators, these costs are being amortized to operations through November 2048.

Environmental remediation recoverable through rates is the recovery of costs incurred by the Company s California subsidiary under a settlement agreement entered into with the National Oceanic and Atmospheric Administration to improve habitat conditions in the Carmel River Watershed.

Coastal water project costs include all preliminary costs associated with the studying, testing, and design of alternatives to help solve water supply shortages in Monterey, California. Coastal water project costs incurred through December 31, 2007 have been reviewed and approved for recovery through a surcharge that went into effect January 1, 2007. Costs deferred during 2009 and 2008 totaled $6,542 and $4,731, respectively. The Company believes it is probable that the costs incurred since the last rate review will also be recoverable.

San Clemente Dam project costs include deferred costs for the Company s California subsidiary to investigate alternatives to strengthen or remove the San Clemente Dam due to potential earthquake or flood safety concerns. These costs are not yet in rates; however, the Company believes it is probable that the costs incurred will be recoverable.

Other regulatory assets include certain deferred employee benefit costs, deferred treatment facility costs, as well as various regulatory balancing accounts.

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The components of regulatory liabilities at December 31 are as follows:

	2009	2008
Removal costs recovered through rates	$ 251,837	$ 231,789
Deferred income taxes	33,103	34,180
Other	37,341	41,355
	$ 322,281	$ 307,324

Removal costs recovered through rates are retirement costs recovered through customer rates during the life of the associated assets. In December 2008, the Company s subsidiary in New Jersey, at the direction of the New Jersey Regulator, began to amortize $48,000 of the total balance into operations via straight line amortization through November 2048.

Deferred income taxes represent the income tax effect of the adjustment to record the full accumulated postretirement benefit obligation.

Other regulatory liabilities include legal settlement proceeds, deferred gains, future customer refunds, and various regulatory balancing accounts.

Note 8: Goodwill

The Company s annual impairment reviews are performed as of November 30 of each year, in conjunction with the timing of the completion of the Company s annual strategic business plan. At November 30, 2009, the Company s goodwill was $1,250,067. The Company also undertakes interim reviews when the Company determines that a triggering event that would more likely than not reduce the fair value of a reporting unit below its carrying value has occurred.

The Company uses a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). The step 1 calculation used to identify potential impairment compares the calculated fair value for each of the Company s reporting units to their respective net carrying values (book values), including goodwill, on the measurement date. If the fair value of any reporting unit is less than such reporting unit s carrying value, then step 2 is performed to measure the amount of the impairment loss (if any) for such reporting unit.

The step 2 calculation of the impairment test compares, by reporting unit, the implied fair value of the goodwill to the carrying value of goodwill. The implied fair value of goodwill is equal to the excess of the fair value of each reporting unit above the fair value of such reporting unit s identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill for any reporting unit, an impairment loss is recognized in an amount equal to the excess (not to exceed the carrying value of goodwill) for that reporting unit.

The determination of the fair value of each reporting unit and the fair value of each reporting unit s assets and liabilities is performed as of the measurement date using observable market data before and after the measurement date (if that subsequent information is relevant to the fair value on the measurement date).

For the November 30, 2009 impairment test, the estimated fair value of the Regulated reporting unit for step 1 was based on a combination of the following valuation techniques:

- observable trading prices of comparable equity securities of publicly-traded water utilities considered by us to be the Company s peers; and

- discounted cash flow models developed from the Company s internal forecasts.

The first valuation technique applies average peer multiples to the Regulated reporting unit s historic and forecasted cash flows. The peer multiples are calculated using the average trading prices of comparable equity securities of publicly-traded water utilities, their published cash flows and forecasts of market price and cash flows for those peers.

The second valuation technique forecasts each reporting unit s five-year cash flows using an estimated long-term growth rate and discounts these cash flows at their respective estimated weighted average cost of capital.

Because of the unique nature, small size and lack of historical earnings of most of the Non-Regulated reporting units, a market approach could not be reasonably applied. As such the estimated fair values of the Non-regulated reporting units were determined entirely on the basis of discounted cash flow models.

The Company has completed its November 30, 2009 annual impairment review and does not believe that the Company s goodwill balance was impaired. The Company s fair value calculated in its 2009 impairment test period was approximately 6% above the aggregate carrying value of its reporting units.

However, there can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company s performance. These market events could include a decline over a period of time of the Company s stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company s market price consistent with its peer companies, or decreases in control premiums. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, could also result in an impairment charge.

The Company also made certain assumptions, which it believes to be appropriate, that support the fair value of its reporting units. The Company considered, in addition to the listed trading price of the Company s shares, the applicability of a control premium to the Company s shares and certain other factors the Company deemed appropriate. As a result, the Company concluded that the Company s fair value exceeds what the Company might otherwise have concluded had it relied on market price alone.

The difference between the Company s calculated market capitalization (which approximates carrying value) and the aggregate fair value of reporting units resulted from an estimated control premium. The estimated control premium represents the incremental premium a buyer is willing to pay to acquire a controlling, majority interest in the Company. In estimating the control premium, management principally considered the current market conditions and historical premiums paid in utility acquisitions observed in the marketplace.

For the years ended December 31, 2009, 2008 and 2007, the Company recorded impairment charges for goodwill in the amount of $450,000, $750,000, and $509,345, respectively.

The Company s calculated market capitalization at March 31, 2009 was $1,186,000 below the aggregated carrying value of its reporting units. During the first quarter of 2009, the Company s market price experienced a high degree of volatility and, as of March 31, 2009, had a sustained period for which it was below historical averages and 10% below the market price employed in the Company s 2008 annual goodwill impairment test. Having considered both qualitative and quantitative factors, management concluded that this sustained decline in market value below the market value which existed at the 2008 annual impairment test, was an interim triggering event. An interim impairment test was performed and $450,000 was recognized as a goodwill impairment charge, primarily in the Regulated reporting unit, for the three months ended March 31, 2009.

As of March 31, 2008, in light of the initial public offering price and trading levels in the Company s common stock subsequent to the date of the initial public offering, the Company performed an interim impairment test and, on May 9, 2008, management concluded that the carrying value of the Company s goodwill was impaired. The Company believed that the initial public offering price was indicative of the value of the

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Company at March 31, 2008, and accordingly, based on those factors recorded an impairment charge to the goodwill of its Regulated reporting unit in the amount of $750,000 as of March 31, 2008. The impairment charge was primarily attributed to the market price of the Company s common stock (both the initial public offering price and the price during subsequent trading) being less than the estimate of the initial public offering price used during the 2007 annual test. Also contributing to the impairment was a decline in the fair value of the Company s debt (due to increased market interest rates).

The Company completed its scheduled annual impairment test in the fourth quarter of 2007 and determined an impairment had occurred based upon information regarding the Company s market value in connection with the initial public offering. Management determined that the indicative fair value of the Company based on estimates of the initial public offering price range was the best evidence of the Company s market value and incorporated this indicated market value into the Company s valuation methodology, which also considered other items, such as peer multiples, discounted cash flows and a control premium. Based on the results of the impairment test, an impairment of $266,000 to the Company s carrying value was recognized as of December 31, 2007.

During the third quarter of 2007, as a result of the Company s debt being placed on review for a possible downgrade and the proposed sale of a portion of the Company in the initial public offering, management determined at that time it was appropriate to update its valuation analysis before the next scheduled annual test. Based on this assessment, the Company performed an interim impairment test and recorded an impairment charge to goodwill related to its Regulated reporting unit in the amount of $243,345 as of September 30, 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.

The change in the Company s goodwill assets, as allocated between the reporting units is as follows:

	Regulated Unit		Non-regulated Units		Consolidated		
	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Total Net
Balance at January 1, 2008	$ 3,572,650	$ (1,245,380)	$ 235,549	$ (105,867)	$ 3,808,199	$ (1,351,247)	$ 2,456,952
Impairment losses		(750,000)				(750,000)	(750,000)
Felton water system sale	(2,373)				(2,373)		(2,373)
Reclassifications and other activity(a)	(5,062)				(5,062)		(5,062)
Balance at December 31, 2008	3,565,215	(1,995,380)	235,549	(105,867)	3,800,764	(2,101,247)	1,699,517
Goodwill from acquisitions	440		166		606		606
Impairment losses		(448,248)		(1,752)		(450,000)	(450,000)
Reclassifications and other activity	258				258		258
Balance at December 31, 2009	$ 3,565,913	$ (2,443,628)	$ 235,715	$ (107,619)	$ 3,801,628	$ (2,551,247)	$ 1,250,381

(a) Includes $4,793 of goodwill transferred to regulatory assets in December 2008 for acquisition premiums recoverable through rates.

Note 9: Stockholders Equity

Common Stock

During 2009, RWE Aktiengesellschaft (RWE) completed the divestiture of its investment in the Company that began with the April 28, 2008 initial public offering (IPO) of the Company s stock. In April and May 2008, RWE sold 63,173 shares of common stock, including an underwriters option of 5,173 shares, at an IPO

price of $21.50. The Company did not receive any proceeds from the sale of shares. Prior to the IPO, the Company was an indirect wholly-owned subsidiary of RWE. After the IPO and exercise of the underwriters over-allotment option, RWE owned approximately 60% of the Company s common shares.

On June 10, 2009 the Company completed a public offering of 29,900 shares of its common stock. Pursuant to the offering, the Company sold 14,500 shares of common stock and 15,400 shares were sold by RWE. The Company completed the sale of 14,500 shares of common stock at $17.25 per share. The proceeds from the offering, net of underwriters discounts and expenses payable by the Company, were $242,301. The Company used the proceeds to repay short-term debt.

RWE completed the divestiture of its investment in the Company in 2009 through the aforementioned June 2009 sale of 15,400 shares, including an underwriters option of 3,900 shares, at a price per share of $17.25; an August 2009 sale of 40,250 shares, including underwriters options of 5,250 shares, at a price of $19.25; and a November 2009 sale of 41,087 shares, including an underwriters option of 3,735 shares, at a price of $21.63. The Company did not receive any proceeds from these sales by RWE of the Company s shares.

Effective the first quarter of 2008, the Company s Board of Directors authorized 50,000 shares of par value $0.01 per share preferred stock. As of December 31, 2009 there are no shares outstanding.

In September of 2008, the Company made a cash dividend payment of $0.20 per share to all common shareholders of record as of August 15, 2008, amounting to $31,992. In December 2008, the Company made a cash dividend payment of $0.20 per share to all common shareholders of record as of November 18, 2008, amounting to $31,997.

In March 2009, the Company made a cash dividend payment of $0.20 per share to all common shareholders of record as of February 18, 2009, amounting to $32,000. In June 2009, the Company made a cash dividend payment of $0.20 per share to all common shareholders of record as of May 18, 2009, amounting to $32,006. In September 2009, the Company made a cash dividend payment of $0.21 per share to all common shareholders of record as of August 18, 2009, amounting to $36,658. In December 2009, the Company made a cash dividend payment of $0.21 per share to all common shareholders of record as of November 18, 2009, amounting to $36,667.

On January 29, 2010, the Company s Board of Directors declared a quarterly cash dividend payment of $0.21 per share payable on March 1, 2010 to all shareholders of record as of February 18, 2010.

Accumulated Other Comprehensive Loss

The following table presents accumulated other comprehensive loss:

	2009	2008
Employee benefit plans funded status adjustments	$ (68,250)	$ (84,271)
Foreign currency translation	3,573	2,020
Balance at December 31	$ (64,677)	$ (82,251)

Stock Based Compensation

The Company has granted stock option and restricted stock unit awards to non-employee directors, officers and other key employees of the Company pursuant to the terms of its 2007 Omnibus Equity Compensation Plan (the Plan). The total aggregate number of shares of common stock that may be issued under the Plan was increased to 15,500 from 6,000 in May of 2009. As of December 31, 2009, a total of 12,267 shares are available for grant under the Plan. Shares issued under the Plan may be authorized but unissued shares of Company stock or reacquired shares of Company stock, including shares purchased by the Company on the open market for purposes of the Plan.

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The Company recognizes compensation expense for stock awards over the vesting period of the award. The following table presents stock-based compensation expense recorded in operations and maintenance expense in the accompanying Consolidated Statement of Operations for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Stock options	$ 3,415	$ 1,607	$
Restricted stock units	3,799	957	680
Restricted stock		1,798	
Employee stock purchase plan	388	172	
Stock-based compensation in operation and maintenance expense	7,602	4,534	680
Income tax benefit	(2,965)	(1,768)	(265)
After-tax stock-based compensation expense	$ 4,637	$ 2,766	$ 415

There were no significant stock-based compensation costs capitalized during the years ended December 31, 2009, 2008 and 2007.

The cost of services received from employees in exchange for the issuance of stock options and restricted stock awards is required to be measured based on the grant date fair value of the awards issued. The value of stock options and restricted stock awards at the date of the grant is amortized through expense over the requisite service period, which is generally three years. All awards granted in 2009 and 2008 are classified as equity.

The Company receives a tax deduction based on the intrinsic value of the award at the exercise date for stock options and the distribution date for restricted stock and restricted stock units. For each award, throughout the requisite service period, the Company recognizes the tax benefit related to compensation costs, which have been included in deferred tax assets. The tax deductions in excess of the benefits recorded throughout the requisite service period are recorded to shareholders equity or the income statement and are included in the financing section of the cash flow statement.

The Company stratified its grant populations and used historic employee turnover rates and general market data to estimate employee forfeitures. The estimated rate is compared to the actual forfeitures at the end of the period and adjusted as necessary.

Stock Options

On April 22, 2008, the Company granted 2,078 non-qualified stock options to certain employees and non-employee directors under the Plan. The stock options were awarded in two grants with Grant 1 vesting on January 1, 2010 and Grant 2 vesting January 1, 2011. These awards included 1,470 stock options that are subject to performance based vesting requirements. The performance conditions for Grant 1 are based on the achievement of 120% of net income targets in 2007 and 2008. Grant 2 performance conditions are based on the achievement of 120% of net income targets in 2008 and 2009. On February 20, 2009, the Company cancelled 311 of the stock options related to the first performance vesting period because the performance goals were not fully met at December 31, 2008. The Grant 2 performance vesting period ended December 31, 2009 and according to the plan, the Company must certify the level of achievement no later than 90 days after January 1, 2010. Any portion of the stock options that do not fully satisfy the performance goals will be forfeited as of the date the level of achievement is certified. In February 2010, 459 stock options were forfeited because the performance goals were not fully met. The Company continues to recognize expense on the remaining stock options during the service period, which ends December 31, 2010.

Additionally during August 2008, the Company granted 5 stock options to newly appointed non-employee directors in two grants vesting on January 1, 2011. These awards have no performance vesting conditions.

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On February 20, 2009, the Company granted 1,091 non-qualified stock options to certain employees under the Plan. The stock options vest ratably over a three-year service period from January 1, 2009. These awards have no performance vesting conditions.

The following table presents the weighted average assumptions used in the pricing model for grants and the resulting weighted average grant date fair value of stock options granted in the years ended December 31, 2009 and 2008.

	2009	2008
Dividend yield	3.86%	3.72%
Expected volatility	31.67%	29.00%
Risk-free interest rate	1.79%	2.82%
Expected life (years)	4.36	4.29
Exercise price	$ 20.70	$ 21.50
Grant date fair value	$ 3.96	$ 4.05

The Company utilized the simplified method to determine the expected stock option life due to insufficient historical experience to estimate the exercise patterns of the stock options granted. The Company began granting stock options at the time of the IPO in April 2008. Expected volatility is based on a weighted average of historic volatilities of traded common stock of peer companies (regulated water companies) over the expected term of the stock options and historic volatilities of the Company s common stock during the period it has been publicly traded. The dividend yield is based on the Company s expected dividend payments and the stock price on the date of grant, which was the IPO price for Grants 1 and 2. The risk-free interest rate is the market yield on U.S. Treasury strips with maturities similar to the expected term of the stock options. The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Stock options granted vest over periods ranging from one to three years and expire seven years from the effective date of the grant. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model.

The value of stock options at the date of the grant is amortized through expense over the requisite service period using the straight-line method. As of December 31, 2009, $3,665 of total unrecognized compensation costs related to the nonvested stock options is expected to be recognized over the remaining weighted-average period of 1.20 years.

The table below summarizes stock option activity for the year ended December 31, 2009.

	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2009	2,060	$ 21.50		
Granted	1,091	20.70		
Cancelled	(311)	21.50		
Forfeited or expired	(116)	21.16		
Exercised				
Options outstanding at December 31, 2009	2,724	$ 21.19	5.17	$ 3,317
Exercisable at December 31, 2009(a)	24	$ 21.50	0.64	$ 22

(a) Includes stock options issued to retired employees for Grants 1 and 2.

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Restricted Stock Units

On April 22, 2008, the Company granted 269 restricted stock units to certain employees and non-employee directors under the Plan. The restricted stock units were awarded in two grants with Grant 1 vesting on January 1, 2010 and Grant 2 vesting January 1, 2011. The grant date fair value of these restricted stock units is $21.50. These awards included 190 restricted stock units that are subject to performance-based vesting requirements. The performance conditions for Grant 1 are based on the achievement of 120% of net income targets in 2007 and 2008. Grant 2 performance conditions are based on the achievement of 120% of net income targets in 2008 and 2009. On February 20, 2009, the Company cancelled 39 of these restricted stock units related to the first performance vesting period because the performance goals were not fully met at December 31, 2008. The Grant 2 performance vesting period ended December 31, 2009 and according to the Plan, the Company must certify the level of achievement no later than 90 days after January 1, 2010. Any portion of the restricted stock units that do not fully satisfy the performance goals will be forfeited as of the date the level of achievement is certified. In February 2010, 60 restricted stock units were forfeited because the performance goals were not fully met. The Company continues to recognize expense on the remaining restricted stock units during the service period, which ends December 31, 2010.

Additionally during August 2008, the Company granted 1 restricted stock units to newly appointed non-employee directors in two grants vesting on January 1, 2011. The weighted average grant date fair value of these restricted stock units is $20.32. These awards have no performance vesting conditions.

On February 20, 2009, the Company granted 195 restricted stock units to certain employees under the Plan. The restricted stock units vest ratably over the three year performance period beginning January 1, 2009 (the Performance Period); however, distribution of the shares is contingent upon the achievement of certain market thresholds over the Performance Period. The grant date fair value of the restricted stock units awarded in February 2009 is $22.08.

On May 8, 2009 and June 19, 2009, the Company granted 15 and 5 restricted stock units, respectively, to certain non-employee directors under the Plan. The restricted stock units vested on the date of the grant; however, distribution of the shares will be made within 30 days of the earlier of August 12, 2010 or the participant s separation from service. The weighted average grant date fair value of these restricted stock units is $18.56.

Restricted stock units generally vest over periods ranging from one to three years. Restricted stock units granted without market conditions are valued at the market value of the Company s common stock on the date of grant. Restricted stock units granted with market conditions are valued using a Monte Carlo model. As of December 31, 2009, $2,160 of total unrecognized compensation cost related to the nonvested restricted stock units is expected to be recognized over the weighted-average remaining life of 1.22 years.

The value of restricted stock awards at the date of the grant is amortized through expense over the requisite service period using the straight-line method for restricted stock units with service and/or performance vesting. The grant date fair value of restricted stock awards that have market and service conditions and vest ratably is amortized through expense over the requisite service period using the graded-vesting method.

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The table below summarizes restricted stock unit activity for the year ended December 31, 2009.

	Shares	Weighted Average Grant Date Fair Value (per share)
Nonvested total at January 1, 2009	267	$ 21.50
Granted	215	21.75
Distributed	(3)	21.50
Cancelled	(39)	21.50
Forfeited	(18)	21.80
Undistributed vested awards(a)	(20)	18.62
Nonvested total at December 31, 2009	402	$ 21.77

(a) Includes restricted stock units granted to retired employees and members of the Company s Board of Directors.
The aggregate intrinsic value of restricted stock units distributed was $51, on which the Company recognized an income tax shortfall of $5, which has been recorded in the accompanying Consolidated Statement of Operations.

If dividends are declared with respect to shares of the Company s common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the employee a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling $279 and $66 to retained earnings during the years ended December 31, 2009 and 2008, respectively.

Employee Stock Purchase Plan

The Company s Nonqualified Employee Stock Purchase Plan (ESPP) was effective as of July 1, 2008. Under the ESPP, employees can use payroll deductions to acquire Company stock at the lesser of 90% of the fair market value of a) the beginning or b) the end of each three-month purchase period. As of December 31, 2009 there were 1,832 shares of common stock reserved for issuance under the ESPP. The Company s ESPP is considered compensatory. Compensation costs of $388 and $172 were recognized for the years ended December 31, 2009 and 2008, respectively. During the year ended December 31, 2009 and 2008, the Company issued 129 and 39 shares, respectively, under the ESPP.

Restricted Stock

On April 22, 2008, a subsidiary of RWE contributed 90 shares of the Company s common stock to the Company and the Company granted 90 restricted stock awards under the 2007 Plan. The requisite service period for the restricted stock was three months and the grant date fair value was $21.50. As of December 31, 2008, the restricted stock was fully vested and there were no unrecognized compensation costs related to the nonvested restricted stock units. The Company issued 84 shares of common stock under this award. The aggregate intrinsic value of restricted stock awards on the date of vesting was $1,647. The Company recognized an income tax shortfall of $60, which was recorded in the Consolidated Statement of Operations at the vesting of these awards.

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Note 10: Preferred Stock Without Mandatory Redemption Requirements

Certain preferred stock agreements do not require annual sinking fund payments or redemption except at the option of the subsidiaries and are as follows:

Dividend Yield	Balance at December 31, 2009	2008
4.50%	$ 1,720	$ 1,720
5.00%	1,962	1,962
5.50%	486	486
5.75%	389	389
	$ 4,557	$ 4,557

Dividends issued totaled $225 in 2009, 2008, and 2007, respectively, and were included in other, net on the accompanying Consolidated Statements of Operations.

Note 11: Long-Term Debt

The Company primarily incurs long-term debt to fund capital expenditures at the regulated subsidiaries. The components of long-term at December 31 are:

	Rate	Weighted Average Rate	Maturity Date	2009	2008
Long-term debt of American Water Capital Corp. (AWCC)					
Private activity bonds and government funded debt					
Fixed rate	5.25%-6.75%	6.03%	2018-2039	$ 200,975	$
Floating rate(a)					86,860
Senior notes					
Fixed rate	5.39%-10.00%	6.26%	2011-2039	3,115,853	2,959,000
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate	0.00%-6.88%	5.29%	2010-2039	1,197,611	937,835
Floating rate(b)	0.90%-2.40%	1.05%	2015	8,560	33,420
Mortgage bonds					
Fixed rate	5.48%-9.71%	7.50%	2010-2039	754,966	675,200
Senior debt					
Fixed rate					40,613
Mandatory redeemable preferred stock	4.60%-9.75%	8.37%	2013-2036	24,207	24,425
Notes payable and other(c)	4.90%-13.31%	7.27%	2011-2026	6,561	2,882
Long-term debt				5,308,733	4,760,235
Unamortized debt discount, net(d)				57,461	63,800
Total long-term debt				$ 5,366,194	$ 4,824,035

(a) Variable rate tax-exempt bonds remarketed for periods up to 270 days. These bonds may be converted to other short-term variable-rate structures, a fixed-rate structure or subject to redemption. During 2009, AWCC remarketed $76,225 of these bonds to fixed rate private

activity bonds. The remaining $10,635 is held in the Company s treasury at December 31, 2009.

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(b) Variable rate tax-exempt bonds which are remarketed for periods up to 270 days. During 2009, $24,860 was remarketed to fixed rate private activity bonds, and the remaining $8,560 was remarketed to floating rate bonds. The $8,560 is classified as current portion of long-term debt in the accompanying balance sheets because it was repurchased by the Company during the first quarter of 2009 when no investor was willing to purchase it at the market rate. This debt was subsequently remarketed as floating rate debt in the second quarter of 2009.
(c) Includes capital lease obligations of $5,679 (including $3,990 from 2009 acquisitions) and $1,829 at December 31, 2009 and 2008, respectively. Lease payments of $608, $637, $673, $580, $512 and $2,669 will be made in 2010, 2011, 2012, 2013, 2014 and thereafter, respectively.
(d) Includes fair value adjustments previously recognized in acquisition purchase accounting.

All $754,966 of the subsidiaries mortgage bonds and $1,122,065 of the $1,197,611 total subsidiaries private activity bonds and government funded debt are collateralized by utility plant.

Long-term debt indentures contain a number of covenants that, among other things, limit, subject to certain exceptions, the Company from issuing debt secured by the Company s assets. Certain long term notes require the Company to maintain a ratio of consolidated total indebtedness to consolidated total capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2009 was 0.58 to 1.00. In addition, the Company has $1,929,208 of notes which include the right to redeem the notes in whole or in part from time to time subject to certain restrictions.

In 2007, the Company borrowed $1,750,000 from RWE and used the proceeds to redeem $1,750,000 of its 5.9% mandatory redeemable preferred stock.

Also during 2007, the Company issued senior notes in the principal amount of $2,117,000 and received equity contributions from RWE in the amount of $1,067,092. The Company used the proceeds from the senior notes and equity contributions to repay long-term and short-term RWE notes, repay outstanding commercial paper and for other corporate purposes amounting to $2,011,530, $624,446 and $548,116, respectively.

A portion of the RWE notes that were redeemed in 2007 were obtained for the use of certain of the Company s regulated subsidiaries. These notes were redeemed early resulting in a difference of $8,655 between the book value of the RWE notes and the cash consideration required to extinguish the notes. As agreed with the applicable Regulators, the difference on extinguishment was deferred as a regulatory liability by the Company s regulated subsidiaries and will be amortized to Interest, net over the remaining lives of the original RWE notes for periods ranging from 2014 to 2034. The amount amortized was $1,967, $1,044, and $531 in 2009, 2008, and 2007, respectively.

The future sinking fund payments and maturities are as follows:

Year	Amount
2010	$ 54,068
2011	35,633
2012	31,929
2013	112,717
2014	9,546
Thereafter	5,064,840

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The following long-term debt was issued in 2009:

Company	Type		Interest Rate	Maturity	Amount
American Water Capital Corp:	Private activity fixed rate:	(1)	5.25%	2039	$ 28,500
		(1)	5.63%	2039	26,000
			6.00%	2018	18,250
			6.10%	2019	17,950
			6.25%	2032	23,325
			6.25%	2032	24,860
		(1)	6.25%	2039	45,390
			6.75%	2031	16,700
American Water Capital Corp:	Senior notes-fixed rate:		6.00%	2039	60,000
			7.21%	2019	24,500
			8.25%	2038	75,000
			8.27%	2039	25,500
Other subsidiaries:	Private activity-fixed rate:		1.27%	2029	2,242
			4.14%	2029	1,315
			5.00%	2039	10,500
			5.70%	2039	134,224
		(1)	6.20%	2039	80,000
Other subsidiaries:	Private activity floating rate:		1.00%	2015	8,560
Other subsidiaries:	Mortgage bonds fixed rate:		5.48%	2019	25,000
			6.35%	2039	75,000
Other:	Capital lease	(1)	8.82%	2011	41
Total issuances					$ 722,857

(1) The proceeds of these issuances are initially kept in Trust, pending the Company s certification that it has incurred qualifying capital expenditures. These issuances have been presented as non-cash on the accompanying Consolidated Statements of Cash Flows. Subsequent release of all or a lesser portion of these funds by the applicable Trust are reflected as the release of restricted funds and are included in investing activities in the accompanying statement of cash flows.

The following long-term debt and preferred stock with mandatory redemption requirements were repurchased or retired through optional redemption or payment at maturity during 2009:

Company	Type	Interest Rate	Maturity	Amount
Long-term debt				
American Water Capital Corp	Private activity bonds floating rate	1.55%-2.20%	2018-2032	$ 86,860
	Senior notes fixed rate	6.87%-8.25%	2011-2038	28,147
Other subsidiaries.	Private activity bonds fixed rate	0.00%-5.90%	2009-2034	8,505
	Private activity bonds floating rate	1.50%-10.00%	2015-2032	33,420
	Mortgage bonds fixed rate	6.90%-9.22%	2009-2011	20,847
Mandatory redeemable preferred stock		4.60%-6.00%	2013-2019	218
Notes payable and capital leases		4.90%-13.31%	2011-2026	352
Total retirements & redemptions				$ 178,349

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Other subsidiaries senior debt of $40,000 and $613 was reclassified to other subsidiaries fixed rate private activity bonds and government funded debt and mortgage bonds, respectively.

Gains from early extinguishment of debt included in Interest, net amounted to $0 in 2009 and 2008, and $13,113 in 2007, respectively.

Interest, net includes interest income of approximately $10,422, $5,690 and $10,985 in 2009, 2008 and 2007, respectively.

Note 12: Short-Term Debt

The components of short-term debt at December 31 are as follows:

	2009	2008
Revolving credit line	$	$ 437,000
Commercial paper, net of $5 and $0 discount at 2009 and 2008, respectively	84,995	
Book overdraft	34,502	42,010
Total short-term debt	$ 119,497	$ 479,010

AWCC had the following available capacity under its commercial paper program at December 31:

	2009	2008
Commercial paper program	$ 700,000	$ 700,000
Commercial paper program available capacity	615,000	700,000

AWCC has entered into an $840,000 senior unsecured credit facility syndicated among the following group of 11 banks with JPMorgan Chase Bank, N.A. acting as administrative agent:

Bank	Commitment Amount Through September 15, 2012	Commitment Amount Through September 15, 2013
JPMorgan Chase Bank, N.A.	$ 115,000	$
Citibank, N.A.	115,000	115,000
Citizens Bank of Pennsylvania	80,000	80,000
Credit Suisse	80,000	80,000
William Street Commitment Corporation	80,000	80,000
Merrill Lynch Bank USA	80,000	80,000
Morgan Stanley Bank	80,000	80,000
UBS Loan Finance LLC	80,000	80,000
National City Bank	50,000	50,000
PNC Bank, N.A.	40,000	40,000
The Bank of New York Mellon	40,000	
	$ 840,000	$ 685,000

This revolving credit facility is principally used to support the commercial paper program at AWCC and to provide up to $150,000 in letters of credit. On September 15, 2008, a majority of the banks agreed to further extend $685,000 of commitments under this revolving credit facility to September 15, 2013. On December 18, 2008, The Bank of New York Mellon joined the credit facility syndicate with a commitment amount of $40,000 through September 15, 2012. If any lender defaults in its obligation to fund advances, the Company may request

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the other lenders to assume the default lender s commitment or replace such defaulting lender by designating an assignee willing to assume the commitment, however the remaining lenders have no obligation to assume a defaulting lender s commitment and we can provide no assurances that we will replace a defaulting lender.

At December 31, AWCC had the following sub-limits and available capacity under the credit facility.

	2009	2008
Letter of credit sublimit	$ 150,000	$ 150,000
Letter of credit available capacity	101,754	106,097

At December 31, 2009, the Company had $50,579 of outstanding letters of credit, $48,246 of which was issued under the revolving credit facility noted above.

The following table presents the short-term borrowing activity for AWCC for the years ended December 31, 2009 and 2008:

	2009	2008
Average borrowings	$ 347,413	$ 291,821
Maximum borrowings outstanding	708,691	570,429
Weighted average interest rates, computed on a daily basis	0.82%	3.51%
Weighted average interest rates, at December 31	0.39%	0.75%

Interest rates on advances under the credit facility are based on either prime or the London Interbank Offering Rate (LIBOR) plus an applicable margin based upon credit ratings of the Company, as well as total outstanding amounts under the agreement at the time of the borrowing. The maximum LIBOR margin is 55 basis points.

The credit facility requires the Company to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2009 was 0.58 to 1.00.

None of the Company s borrowings are subject to default or prepayment as a result of a downgrading of securities, although such a downgrading could increase fees and interest charges under the Company s credit facilities.

As part of the normal course of business, the Company routinely enters contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit the Company and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on its net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company s situation at the time of the demand. If the Company can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient. The Company does not expect to post any collateral which will have a material adverse impact on the Company s results of operations, financial position or cash flows.

AWCC has entered into a one year $10,000 committed revolving line of credit with PNC Bank, N.A. This line of credit will terminate on December 31, 2010 unless extended and is used primarily for short-term working capital needs. Interest rates on advances under this line of credit are based on either the prime rate of the financial institution or the applicable LIBOR rate for the term selected plus 175 basis points.

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Note 13: General Taxes

Components of general tax expense from continuing operations for the years ended December 31 are as follows:

	2009	2008	2007
Gross receipts and franchise	$ 81,244	$ 79,228	$ 71,360
Property and capital stock	79,420	80,025	75,172
Payroll	29,749	31,060	28,406
Other general	8,849	8,826	8,315
	$ 199,262	$ 199,139	$ 183,253

Note 14: Income Taxes

Components of income tax expense from continuing operations for the years ended December 31 are as follows:

	2009	2008	2007
State income taxes			
Current	$ (18,525)	$ 16,196	$ 16,135
Deferred			
Current	(1,599)	409	2,079
Non-current	40,687	10,332	(11)
	20,563	26,937	18,203
Federal income taxes			
Current	555	1,522	30,213
Deferred			
Current	(11,929)	1,973	9,382
Non-current	113,662	82,929	30,468
Amortization of deferred investment tax credits	(1,433)	(1,534)	(1,510)
	100,855	84,890	68,553
	$ 121,418	$ 111,827	$ 86,756

A reconciliation of income tax expense from continuing operations at the statutory federal income tax rate to actual income tax expense for the years ended December 31 is as follows:

	2009	2008	2007
Income tax at statutory rate	$ (39,083)	$ (157,708)	$ (89,432)
Increases (decreases) resulting from:			
State taxes, net of federal taxes	13,366	17,509	11,832
Change in valuation allowance	(6,578)	(158)	(4,727)
Flow through differences	2,918	2,731	2,780
Amortization of deferred investment tax credits	(1,433)	(1,534)	(1,510)
Subsidiary preferred dividends	714	716	799
Impairment charges	150,705	252,158	171,247
Other, net	809	(1,887)	(4,233)

Actual income tax expense	$ 121,418	$ 111,827	$ 86,756

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The following table provides the components of the net deferred tax liability from continuing operations at December 31:

	2009	2008
Deferred tax assets:		
Advances and contributions	$ 568,422	$ 539,165
Deferred investment tax credits	12,417	12,973
Other postretirement benefits	100,936	102,371
Tax losses and credits	352,426	124,311
Pension benefits	147,904	187,498
Unamortized debt discount, net	24,100	26,718
Capital loss not utilized		6,165
Other	23,891	54,965
	1,230,096	1,054,166
Valuation allowance	(25,621)	(28,862)
	1,204,475	1,025,304
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	1,771,263	1,446,655
Income taxes recoverable through rates	76,697	76,159
Deferred security costs	4,144	5,358
Deferred business services project expenses	4,456	4,456
Deferred other postretirement benefits	53,152	51,145
Deferred pension benefits	77,924	88,768
Other	68,516	58,350
	2,056,152	1,730,891
	$ (851,677)	$ (705,587)

At December 31, 2009 and 2008, the Company recorded federal net operating loss (NOL) carryforwards of $1,123,938 and $239,654, respectively. The Company believes the federal NOL carryforwards are more likely than not to be recovered and require no valuation allowance. The Company evaluated its ability to fully utilize the existing federal NOL carryforwards in light of the RWE divestiture in November 2009. Under Internal Revenue Code (I.R.C.) Section 382, an ownership change occurs if there is a greater than fifty percent (50%) change in equity ownership of a company over a three year period determined by reference to the ownership of persons holding five percent (5%) or more of that company s equity securities. If a company undergoes an ownership change as defined by I.R.C. Section 382, the company s ability to utilize its pre-change NOL carryforwards to offset post-change income may be limited.

The Company believes that the limitation imposed by I.R.C. Section 382 generally should not preclude use of its federal NOL carryforwards, assuming the Company has sufficient taxable income in future carryforward periods to utilize those NOL carryforwards. The Company s federal NOL carryforwards do not begin expiring until 2024.

At December 31, 2009 and 2008, the Company recorded state NOLs of $760,190 and $431,694, respectively, a portion of which are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOL carryforwards began expiring in 2008.

At December 31, 2009 and 2008, the Company had Canadian NOL carryforwards of $13,033 and $17,528, respectively. The majority of these carryforwards are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The Canadian NOL carryforwards began expiring in 2008.

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At December 31, 2009 and 2008, the Company had capital loss carryforwards for federal income tax purposes of $16,282 and $17,614, respectively. The Company has recognized a full valuation allowance for the capital loss carryforwards because the Company does not believe these losses are more likely than not to be recovered.

The Company files income tax returns in the United States federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local or non-U.S income tax examinations by tax authorities for years before 2004.

The Company has state income tax examinations in progress and does not expect material adjustments to result.

In December 2008, the Company filed a request with the Internal Revenue Service (IRS) to change its tax accounting method for repair and maintenance costs on its utility assets. The IRS partially approved the request in October 2009, allowing the Company to take a current deduction for costs that were previously capitalized for tax purposes. As a result, the Company recorded a deferred income tax liability for this temporary difference.

The following table summarizes the changes in the Company s gross liability, excluding interest and penalties, for unrecognized tax benefits:

Balance at January 1, 2008	$ 1,642
Decreases due lapse statute of limitations	(291)
Balance at December 31, 2008	1,351
Increases in prior period tax positions	88,248
Increases in current period tax positions	22,631
Decreases due to lapse of statute of limitations	(209)
Balance at December 31, 2009	$ 112,021

The liability balance as of December 31, 2009 and 2008 does not include interest and penalties of $439 and $312, respectively, which is recorded as a component of income tax expense. The majority of the increased tax position is attributable to temporary differences. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. If the Company sustains all of its positions at December 31, 2009 and 2008, an unrecognized tax benefit of $7,785 and $1,104, respectively, excluding interest and penalties, would impact the Company s effective tax rate.

The following table summarizes the changes in the Company s valuation allowance:

Balance at January 1, 2008	$ 29,021
Increases in current period tax positions	2,369
Decreases in prior year tax positions	(2,528)
Balance at December 31, 2008	28,862
Increases in current period tax positions	2,778
Decreases in current period tax positions	(5,698)
Decreases in prior period tax positions	(321)
Balance at December 31, 2009	$ 25,621

Note 15: Employee Benefits

Pension and Other Postretirement Benefits

The Company maintains noncontributory defined benefit pension plans covering eligible non-union employees of its regulated utility and shared services operations. Benefits under the plans are based on the

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employee s years of service and compensation. The pension plans have been closed for any employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan.

The Company s funding policy is to contribute at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Pension plan assets are invested in a number of investments including equity and bond mutual funds, fixed income securities and guaranteed interest contracts with insurance companies.

Pension expense in excess of the amount contributed to the pension plans is deferred by certain regulated subsidiaries pending future recovery in rates charged for utility services as contributions are made to the plans. (See Note 7)

The Company also has several unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees.

The Company maintains postretirement benefit plans providing varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002.

The Company s policy is to fund postretirement benefit costs accrued. Plan assets are invested in equity and bond mutual funds.

The obligations of the plans are dominated by obligations for active employees. Because the timing of expected benefit payments is so far in the future and the size of the plan assets are small relative to the Company s assets, the investment strategy is to allocate a large portion of assets to equities, which the Company believes will provide the highest return over the long-term period. The fixed income assets are invested in long duration debt securities in order to better match the duration of the plan liability.

The Company periodically conducts an asset liability modeling study to ensure the investment strategy is aligned with the profile of the obligations. The long-term goals are to maximize the plan funded status and minimize contributions and pension expense, while taking into account the potential volatility risks on each of these items.

None of the Company s securities are included in pension or other postretirement benefit plan assets.

The asset allocation for the Company s U.S. pension plan at December 31, 2009 and 2008 by asset category, are as follows:

Asset category	Target Allocation 2009	Percentage of Plan Assets At December 31, 2009	2008
Equity securities	70%	71%	70%
Fixed income	30%	29%	30%
Total	100%	100%	100%

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted average credit rating of AA or better by Standard & Poor s and the minimum credit quality for fixed income securities must be BBB- or better. Up to 20% of the portfolio may be invested in collateralized mortgage obligations backed by the United States Government.

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The fair values of pension plan assets at December 31, 2009, by asset category, follow:

Asset Category	Target Allocation 2010	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2008
Cash		$ 10,156	$ 10,156	$	$	
Equity securities:						
U.S. large cap	36.0%	250,353	250,353			35.8%
U.S. mid-cap growth	12.0%	88,397	88,397			12.1%
International	22.0%	153,719	153,719			21.7%
Fixed income securities:	30.0%					30.4%
U.S. Treasury and government bonds		23,495	23,495			
Corporate bonds		23,624		23,624		
Mortgage-backed securities		89,736		89,736		
Guaranteed annuity contracts		56,040		8,593	47,447	
Total	100.0%	$ 695,520	$ 526,120	$ 121,953	$ 47,447	100.0%

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

	Guaranteed Annuity Contract
Balance, January 1, 2009	$ 42,386
Actual return on assets	9,959
Transfers in(out)	(4,898)
Balance, December 31, 2009	$ 47,447

The Company s other postretirement benefit plans are partially funded. The asset allocation for the Company s other postretirement benefit plans at December 31, 2009 and 2008, by asset category, are as follows:

Asset category	Target Allocation 2009	Percentage of Plan Assets At December 31, 2009	2008
Equity securities	70%	70%	70%
Fixed income	30%	30%	30%
Total	100%	100%	100%

The postretirement benefit plan assets are invested in a manner consistent with the pension plan investment policy.

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The fair values of postretirement benefit plan assets at December 31, 2009, by asset category, follow:

Asset Category	Target Allocation 2010	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2008
Cash		$ 2,459	$ 2,459	$	$	
Equity securities:						
U.S. large cap	36.0%	108,703	108,703			34.2%
U.S. mid-cap growth	12.0%	40,575	40,575			12.2%
International	22.0%	70,111	70,111			24.2%
Fixed income securities:	30.0%					29.4%
U.S. Treasury securities		25,072	25,072			
Corporate bonds		31,265		31,265		
Mortgage-backed securities		33,857		33,857		
Total	100.0%	$ 312,042	$ 246,920	$ 65,122	$	100.0%

Valuation Techniques Used to Determine Fair Value

Cash Cash and investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash and are included in the recurring fair value measurements hierarchy as Level 1.

Equity securities With respect to equity securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, which the Company is able to independently corroborate. Equity securities are valued based on quoted prices in active markets and categorized as Level 1.

Fixed-income securities U.S. Treasury securities and government bonds have been categorized in Level 1 because they trade in highly-liquid and transparent markets that the Company can corroborate. The fair values of corporate bonds, mortgage backed securities and a certain guaranteed annuity contract are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities and have been categorized as Level 2 because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate. Certain other guaranteed annuity contracts are invested in a commingled fund and categorized as Level 3 because the investments are not publicly quoted. The fund administrator values the fund using the net asset value per fund share, derived from the quoted prices in active markets of the underlying securities. Since these valuation inputs are not highly observable, the commingled funds have been categorized as Level 3.

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The following table provides a rollforward of the changes in the benefit obligation and plan assets for the most recent two years for all plans combined:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Change in benefit obligation				
Benefit obligation at January 1	$ 1,016,889	$ 916,994	$ 475,742	$ 451,944
Service cost	28,426	26,207	13,172	12,425
Interest cost	62,919	58,195	29,180	28,197
Plan participants contributions			2,216	1,803
Amendments	1,600	850		
Actuarial (gain) loss	53,135	46,988	50,357	2,426
Special termination benefits				
Gross benefits paid	(34,807)	(32,345)	(24,297)	(22,669)
Federal subsidy			1,769	1,616
Benefit obligation at December 31	$ 1,128,162	$ 1,016,889	$ 548,139	$ 475,742
Change in Plan Assets				
Fair value of plan assets at January 1	$ 513,283	$ 626,272	$ 234,501	$ 293,392
Actual return on plan assets	131,252	(158,322)	57,968	(65,400)
Employer contributions	85,792	77,678	41,654	27,375
Plan participants contributions			2,216	1,803
Benefits paid	(34,807)	(32,345)	(24,297)	(22,669)
Fair value of plan assets at December 31	$ 695,520	$ 513,283	$ 312,042	$ 234,501
Funded status at December 31	$ (432,642)	$ (503,606)	$ (236,097)	$ (241,241)
Amounts recognized in the balance sheet consist of:				
Current liability	$ (1,632)	$ (1,544)	$ (52)	$ (48)
Noncurrent liability	(431,010)	(502,062)	(236,045)	(241,193)
Net amount recognized	$ (432,642)	$ (503,606)	$ (236,097)	$ (241,241)

The following table provides the components of the Company s accumulated other comprehensive income and regulatory assets that have not been recognized as components of periodic benefit costs as of December 31.

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Net actuarial loss (gain)	$ 275,188	$ 334,934	$ 145,780	$ 143,907
Prior service cost (credit)	3,140	1,722	(12,120)	(13,301)
Transition obligation (asset)			520	694
Net amount recognized	$ 278,328	$ 336,656	$ 134,180	$ 131,300
Regulatory assets	$ 166,441	$ 198,506	$ 134,180	$ 131,300
Accumulated other comprehensive income	111,887	138,150		
	$ 278,328	$ 336,656	$ 134,180	$ 131,300

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At December 31, 2009 and 2008, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected obligation in excess of plan assets were as follows:

	Projected Benefit Obligation Exceeds the Fair Value of Plans Assets	
	2009	**2008**
Projected benefit obligation	$ 1,128,000	$ 1,017,000
Fair value of plan assets	696,000	513,000

	Accumulated Benefit Obligation Exceeds the Fair Value of Plans Assets	
	2009	**2008**
Accumulated benefit obligation	$ 993,000	$ 887,000
Fair value of plan assets	696,000	513,000

The accumulated postretirement benefit obligation exceeds plan assets for all of the Company s other postretirement benefit plans.

In August 2006, the Pension Protection Act (PPA) was signed into law in the U.S. The PPA replaces the funding requirements for defined benefit pension plans by requiring that defined benefit plans contribute to 100% of the current liability funding target over seven years. Defined benefit plans with a funding status of less than 80% of the current liability are defined as being at risk and additional funding requirements and benefit restrictions may apply. The PPA was effective for the 2008 plan year with short-term phase-in provisions for both the funding target and at-risk determination. The Company s qualified defined benefit plan is currently funded above the at-risk threshold, and therefore the Company expects that the plans will not be subject to the at risk funding requirements of the PPA. The Company is proactively monitoring the plan s funded status and projected contributions under the new law to appropriately manage the potential impact on cash requirements.

Minimum funding requirements for the qualified defined benefit pension plan are determined by government regulations and not by accounting pronouncements. The Company plans to contribute at least amounts equal to the minimum required contributions in 2010 to the qualified pension plans. The Company plans to contribute its 2010 other postretirement benefit cost to its Voluntary Employee s Benefit Association Trust.

Information about the expected cash flows for the pension and postretirement benefit plans is as follows:

	Pension Benefits	Other Benefits
2010 expected employer contributions		
To plan trusts	$ 81,200	$ 38,719
To plan participants	1,632	52

The Company made 2010 contributions to fund pension benefits and other benefits of $12,900 and $9,680, respectively through February 2010.

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The following table reflects the net benefits expected to be paid from the plan assets or the Company s assets:

	Pension Benefits	Other Benefits	
	Expected Benefit Payments	Expected Benefit Payments	Expected Federal Subsidy Payments
2010	$ 42,380	$ 22,598	$ 1,487
2011	46,711	25,834	1,629
2012	51,165	28,602	1,811
2013	55,963	31,600	1,992
2014	61,190	34,843	2,162
2015 2019	389,769	218,881	13,675

Because the above amounts are net benefits, plan participants contributions have been excluded from the expected benefits.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company s employees, mortality, turnover and medical costs. Each assumption is reviewed annually. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

The significant assumptions related to the Company s pension and other postretirement benefit plans are as follows:

	Pension Benefits			Other Benefits		
	2009	2008	2007	2009	2008	2007
Weighted-average assumptions used to determine December 31 benefit obligations						
Discount rate	5.93%	6.12%	6.27%	5.82%	6.09%	6.20%
Rate of compensation increase	4.00%	4.00%	4.25%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 8.50% in 2010 to 5% in 2017+	graded from 8% in 2009 to 5% in 2015+	graded from 8% in 2008 to 5% in 2014+
Weighted-average assumptions used to determine net periodic cost						
Discount rate	6.12%	6.27%	5.90%	6.09%	6.20%	5.90%
Expected return on plan assets	7.90%	7.90%	8.00%	7.60%	7.75%	7.38%
Rate of compensation increase	4.00%	4.25%	4.25%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 8% in 2009 to 5% in 2015+	graded from 8% in 2008 to 5% in 2014+	graded from 9% in 2007 to 5% in 2011+

N/A Assumption is not applicable.

The discount rate assumption was determined for the pension and postretirement benefit plans independently. A yield curve was developed for a universe containing the majority of U.S. issued Aa graded corporate bonds, all of which were non callable (or callable with make-whole provisions). For each plan, the discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plans investment portfolios. Assumed projected rates of return for each

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of the plans projected asset classes were selected after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to the benchmark returns and for the effect of expenses paid from plan assets. The Company s pension expense increases as the expected return on assets decreases.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one -percentage -point change in assumed health care cost trend rates would have the following effects:

	One - Percentage- Point Increase	**One - Percentage- Point Decrease**
Effect on total of service and interest cost components	$ 6,265	$ (5,167)
Effect on other postretirement benefit obligation	$ 72,084	$ (60,025)

The following table provides the components of net periodic benefit costs for the years ended December 31:

	2009	**2008**	**2007**
Components of net periodic pension benefit cost			
Service cost	$ 28,426	$ 26,206	$ 25,611
Interest cost	62,919	58,195	53,288
Expected return on plan assets	(42,224)	(51,701)	(47,052)
Amortization of:			
Prior service cost (credit)	182	181	127
Actuarial (gain) loss	23,968	5	262
Periodic pension benefit cost	$ 73,271	$ 32,886	$ 32,236
Special termination pension benefit charge			93
Net periodic pension benefit cost	$ 73,271	$ 32,886	$ 32,329
Other changes in plan assets and benefit obligations recognized in other comprehensive income, net of tax			
Amortization of prior service credit (cost)	$ (46)	$ (26)	$ (36)
Current year actuarial (gain) loss	(9,981)	64,139	(924)
Amortization of actuarial gain (loss)	(5,994)	(1)	(72)
Total recognized in other comprehensive income	$ (16,021)	$ 64,112	$ (1,032)
Total recognized in net periodic benefit cost and comprehensive income	$ 57,250	$ 96,998	$ 31,297
Components of net periodic other postretirement benefit cost			
Service cost	$ 13,172	$ 12,425	$ 12,683
Interest cost	29,180	28,197	25,383
Expected return on plan assets	(18,638)	(23,002)	(21,065)
Amortization of:			
Transition obligation (asset)	173	173	173
Prior service cost (credit)	(1,180)	(1,180)	(1,180)
Actuarial (gain) loss	9,155	810	

Net periodic other postretirement benefit cost	$ 31,862	$ 17,423	$ 15,994

The Company s policy is to recognize curtailments when the total expected future service of plan participants is reduced by greater than 10% due to an event that results in terminations and/or retirements.

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The estimated amounts that will be amortized from accumulated other comprehensive income and regulatory assets into net periodic benefit cost in 2010 are as follows:

	Pension Benefits	Other Benefits
Actuarial (gain) loss	$ 17,902	$ 8,159
Prior service cost (credit)	322	(1,180)
Transition obligation (asset)		173
Total	$ 18,224	$ 7,152

Savings Plans for Employees

The Company maintains 401(k) savings plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee s contribution, subject to certain limitations. Due to the Company s discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company expensed contributions to the plans totaling $8,082 for 2009, $7,789 for 2008, and $7,305 for 2007, respectively. All of the Company s contributions are invested in one or more funds at the direction of the employee.

Long-Term Incentive Plan

The Company participated in a RWE long-term incentive plan for executives (RWE LTIP). Under the RWE LTIP, Company employees were granted 120,004 performance shares of RWE common stock which vested over three years beginning January 1, 2005. Subject to the vesting provisions, the performance shares were payable in cash. The performance shares were accounted for as a liability. Participants received their awards in cash in 2008. No expense was recognized related to these shares during 2008 and no liability remained at December 31, 2008. For the year ended December 31, 2007, the Company recognized approximately $4,127 of share-based compensation expense related to the performance shares in operation and maintenance expense.

Retention Bonuses

The Company established a retention bonus program that was intended to retain employees in key leadership roles through the timely completion of the IPO. If a participant remained employed by the Company through March 31, 2008, the participant received a cash bonus based on a predetermined percentage of his or her base salary in effect on January 1, 2006, or his or her hire date, if he or she was hired after January 1, 2006. Participants received their awards in cash in 2008. For the years ended December 31, 2008 and 2007, the Company recognized approximately $455 and $2,498 respectively, of expense related to the retention bonuses in operation and maintenance expense.

Completion Bonuses

The Company offered a completion bonus to reward selected senior executives for their contributions to the IPO process. Each eligible executive was entitled to receive a cash bonus based on a predetermined percentage of his or her base salary in effect on December 31, 2007, or his or her hire date, if he or she was hired after January 1, 2006. Participants received their awards in cash in 2008. During 2009, the Company recognized income of $321 for reversal of a prior accrual that was not paid out. For the years ended December 31, 2008, and 2007, the Company recognized approximately $749 and $832, respectively, of expense related to the completion bonuses in operation and maintenance expense.

Note 16: Commitments and Contingencies

OMI/Thames Water Stockton, Inc. (OMI/TW) is a 50/50 joint venture between a subsidiary of the Company and Operations Management International, Inc. (OMI). In February 2003, OMI/TW and the City of

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Stockton, California (the City) entered into a 20-year service contract for capital improvements and management services of water, wastewater and storm water utilities. By mutual agreement, OMI/TW and the City of Stockton terminated the contract effective February 29, 2008 (the Termination Date). Upon termination, responsibility for management and operation of the system was returned to the City. OMI/TW agreed to provide a limited twelve-month warranty relating to certain components of the facilities that OMI/TW constructed (the WW39 Plant), which expired on December 31, 2008. OMI/TW also agreed to correct any latent defects relating to significant deficiencies in the structural components of certain capital improvements discovered prior to November 15, 2009, if any. Additionally OMI/TW committed to pay for certain employee transition costs and assumed financial responsibility for regulatory fines levied through the Termination Date, if any, resulting from OMI/TW s failure to comply with applicable National Pollutant Discharge Elimination System permit requirements and/or incidents traced to design defects in the WW39 Plant. During 2007, the California State Water Resources Control Board (the Board) issued a notice of violation and a corresponding Settlement Communication related to a discharge into an adjacent river. The City has reached a final settlement agreement with the Board related to the discharge. In connection with the final settlement agreement, OMI/TW has agreed to pay a civil penalty and monitoring costs of $425. Given the uncertainties related to resolving the remaining issues described above and financial settlement with OMI, the Company has a loss reserve of approximately $1,300 at December 31, 2009 and 2008, respectively.

The Company is also routinely involved in legal actions incident to the normal conduct of its business. At December 31, 2009, the Company has accrued approximately $3,100 as probable costs and it is reasonably possible that additional losses could range up to $22,000 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such claims or actions will not have a material adverse effect on the Company s results of operations, financial position or cash flows.

The Company enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. The Company s military services agreements expire between 2051 and 2060 and have remaining performance commitments as measured by estimated remaining contract revenue of $2,097,000 at December 31, 2009. The Company s Operations and Maintenance agreements with municipalities and other customers expire between 2010 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $1,305,000 at December 31, 2009. Some of the Company s long-term contracts to operate and maintain a municipality s, federal government s or other party s water or wastewater treatment and delivery facilities include responsibility for certain major maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Included in the military services performance commitment at December 31, 2009 are contracts the Company was awarded during September 2009 for operation and maintenance of the water and wastewater systems at military installations at Fort Belvoir, Virginia and Fort Meade, Maryland. According to the agreements, the awards of the contracts are estimated at approximately $288,000 and $650,000, respectively, over a 50-year period as measured by gross contract revenue subject to price re-determinations and customary federal contracting termination provisions. Federal contract price re-determination is a mechanism to periodically adjust the service fee in subsequent periods to reflect changes in contract obligations and market conditions.

Commitments have been made in connection with certain construction programs. The estimated capital expenditures required under legal and binding contractual obligations amounted to $139,519 at December 31, 2009.

The Company s regulated subsidiaries maintain agreements with other water purveyors for the purchase of water to supplement their water supply. The Company s subsidiaries purchased water expense under these types of agreements amounted to approximately $98,821, $95,739, and $92,403 during the years ended December 31, 2009, 2008, and 2007, respectively. The estimated annual commitment related to the minimum quantities of water purchased is expected to approximate $50,343 in 2010, $45,922 in 2011, $45,842 in 2012, $44,850 in 2013, $44,851 in 2014 and $509,317 thereafter.

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Note 17: Net Loss per Common Share

Earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security. The Company has participating securities related to restricted stock units, granted under the Company s 2007 Omnibus Equity Compensation Plan, that earn dividend equivalents on an equal basis with common shares. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities. There were 21 participating securities that were not included in the basic net loss per common share calculation at December 31, 2009 because they were anti-dilutive. There were no participating securities for the years ended December 31, 2008 and 2007. The following is a reconciliation of the Company s net loss and weighted average common shares outstanding for calculating basic net loss per share:

		Years Ended December 31,	
	2009	2008	2007
Basic			
Loss from continuing operations	$ (233,083)	$ (562,421)	$ (342,275)
Loss from discontinued operations			(551)
Net loss	(233,083)	(562,421)	(342,826)
Less: Distributed earnings to common shareholders (a)	137,597	64,055	
Less: Distributed earnings to participating securities			
Undistributed earnings	(370,680)	(626,476)	(342,826)
Undistributed earnings allocated to common shareholders (b)	(370,680)	(626,476)	(342,826)
Undistributed earnings allocated to participating securities			
Total loss available to common shareholders, basic (a) + (b)	$ (233,083)	$ (562,421)	$ (342,826)
Weighted average common shares outstanding, basic	168,164	159,967	160,000
Basic net loss per common share	$ (1.39)	$ (3.52)	$ (2.14)

Diluted net loss per common share is based on the weighted average number of common shares outstanding adjusted for the dilutive effect of common stock equivalents related to the restricted stock units, stock options, employee stock purchase plan and restricted stock. The dilutive effect of restricted stock units, stock options, the employee stock purchase plan, and restricted stock is calculated using the treasury stock method and expected proceeds on vesting of the restricted stock units and restricted stock, exercise of the stock options and purchases under the employee stock purchase plan. The following is a reconciliation of the Company s net loss and weighted average common shares outstanding for calculating diluted net loss per share:

		Years Ended December 31,	
	2009	2008	2007
Diluted			
Total loss available to common shareholders, basic	$ (233,083)	$ (562,421)	$ (342,826)
Undistributed earnings allocated to participating securities			
Total loss available to common shareholders, diluted	$ (233,083)	$ (562,421)	$ (342,826)
Weighted average common shares outstanding, basic	168,164	159,967	160,000
Shares from stock-based compensation plans			

Weighted average common shares outstanding, diluted	168,164	159,967	160,000
Diluted net loss per common share	$ (1.39)	$ (3.52)	$ (2.14)

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Options to purchase 2,265 and 926 shares of the Company s common stock were excluded from the calculation of diluted common shares outstanding because they were anti-dilutive for the years ended December 31, 2009 and 2008, respectively. Additionally, 258 restricted stock units and 32 shares under the employee stock purchase plan at December 31, 2009 and 119 restricted stock units and 33 shares under the employee stock purchase plan at December 31, 2008 were excluded from the diluted net loss per share calculation because they were anti-dilutive. There were also 459 and 1,134 stock options and 144 and 148 restricted stock units which were excluded from the calculation of diluted common shares outstanding because certain performance conditions were not satisfied as of December 31, 2009 and 2008, respectively. The Company had no potentially dilutive shares for the year ended December 31, 2007.

Note 18: Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

Current assets and current liabilities: The carrying amount reported in the Consolidated Balance Sheets for current assets and current liabilities, including revolving credit debt due to the short-term maturities and variable interest rates, approximates their fair values.

Preferred stock with mandatory redemption requirements and long-term debt: The fair values of preferred stock with mandatory redemption requirements and long-term debt are determined by a valuation model which is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company s debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a US Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company s own publicly-traded debt securities and the current market rates for US Utility BBB+ debt securities. The Company used these yield curve assumptions to derive a base yield and then adjusted the base yield for specific features of the debt securities of call features, coupon tax treatment and collateral.

The carrying amounts (including fair value adjustments previously recognized in acquisition purchase accounting) and fair values of the financial instruments at December 31 are as follows:

2009	**Carrying Amount**	**Fair Value**
Preferred stocks with mandatory redemption requirements	$ 24,164	$ 26,257
Long-term debt (excluding capital lease obligations)	5,336,351	5,633,384

2008	**Carrying Amount**	**Fair Value**
Preferred stocks with mandatory redemption requirements	$ 24,368	$ 23,887
Long-term debt (excluding capital lease obligations)	4,797,838	4,430,117

Fair Value Measurements

To increase consistency and comparability in fair value measurements, FASB guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded equity securities, exchange-based derivatives, mutual funds and money market funds.

Level 2 inputs other than quoted prices included within level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial

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assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, commingled investment funds not subject to purchase and sale restrictions and fair-value hedges.

Level 3 unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded non-exchange-based derivatives and commingled investment funds subject to purchase and sale restrictions.

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of December 31, 2009 and 2008, respectively:

	At Fair Value as of December 31, 2009			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Restricted funds	$ 61,232	$	$	$ 61,232
Rabbi trust investments		2,551		2,551
Deposits	11,612			11,612
Total assets	72,844	2,551		75,395
Liabilities:				
Deferred compensation obligation		8,881		8,881
Total liabilities		8,881		8,881
Total net assets (liabilities)	$ 72,844	$ (6,330)	$	$ 66,514

	At Fair Value as of December 31, 2008			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Restricted funds	$ 11,053	$	$	$ 11,053
Rabbi trust investments		3,562		3,562
Deposits	10,958			10,958
Total assets	22,011	3,562		25,573
Liabilities:				
Deferred compensation obligation		7,741		7,741
Total liabilities		7,741		7,741
Total net assets (liabilities)	$ 22,011	$ (4,179)	$	$ 17,832

Restricted funds The Company s restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within twelve months subsequent to year-end are classified as current.

Rabbi trust investments The Company s rabbi trust investments consist primarily of fixed income investments from which supplemental executive retirement plan benefits are paid. The Company includes these assets in other long-term assets.

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Deposits Deposits includes escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations The Company s deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company s deferred compensation obligations is based on the market value of the participants notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

See Note 15 for the Company s fair value of qualified pension and postretirement welfare plans assets.

Non-recurring Fair Value Measurements

As discussed in Note 8, the Company recognized goodwill impairment charges of $450,000, $750,000 and $509,345 for the years ended December 31, 2009, 2008 and 2007, respectively. The Company s goodwill valuation model includes significant unobservable inputs and falls within level 3 of the fair value hierarchy.

Note 19: Operating Leases

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were $37,004 for 2009, $36,200 for 2008 and $34,946 for 2007. The operating leases for facilities will expire over the next 20 years and the operating leases for equipment will expire over the next five years. Certain operating leases have renewal options ranging from one to five years.

At December 31, 2009, the minimum annual future rental commitment under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are $29,024 in 2010, $24,655 in 2011, $20,438 in 2012, $15,455 in 2013, $12,694 in 2014 and $107,000 thereafter.

The Company has a series of agreements with various public entities (the Partners) to establish certain joint ventures, commonly referred to as public-private partnerships. Under the public-private partnerships, the Company constructed utility plant, financed by the Company, and the Partners constructed utility plant (connected to the Company s property), financed by the Partners. The Company agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds (IDBs), issued by the Partners under a state Industrial Development Bond and Commercial Development Act. The Company leased back the total facilities, including portions funded by both the Company and the Partners, under leases for a period of 40 years.

The leases related to the portion of the facilities funded by the Company have required payments from the Company to the Partners that approximate the payments required by the terms of the IDBs from the Partners to the Company (as the holder of the IDBs). As the ownership of the portion of the facilities constructed by the Company will revert back to the Company at the end of the lease, the Company has recorded these as capital leases. The lease obligation and the receivable of the principal amount of the IDBs are presented by the Company on a net basis. The carrying value of the facilities funded by the Company recognized as a capital lease asset was $160,259 and $160,997 at December 31, 2009 and 2008, respectively, which is presented within utility plant. The future payments under the lease obligation are equal to and offset by the payments receivable under the IDBs.

At December 31, 2009, the minimum annual future rental commitment under the operating leases for the portion of the facilities funded by the Partners that have initial or remaining non-cancelable lease terms in excess of one year included in the proceeding minimum annual rental commitments are $3,502 in 2010, $3,519 in 2011 through 2013, $3,518 in 2014, and $85,372 thereafter.

Note 20: Related Party Transactions

Interest expense on the Company s borrowings with RWE amounted to $0 in 2009 and 2008, and $26,797 in 2007, respectively.

TWILUX, an affiliate and wholly owned subsidiary of RWE, was the holder of $1,750,000 of the Company s preferred stock. Preferred dividends included in interest expense amounted to $0 in 2009 and 2008, and $74,569, in 2007, respectively. The preferred stock was redeemed in 2007 utilizing the proceeds from $1,750,000 in variable rate borrowings from RWE. The variable rate borrowings from RWE were subsequently redeemed with proceeds from the senior notes issuance. (See Note 11)

One of the Company s Directors is employed by an electrical utility that supplies electricity and electrical services to the Company s subsidiaries in Ohio, Pennsylvania, and New Jersey. The Company purchased, from various subsidiaries of this electrical utility, approximately $8,558 and $7,183 of such services in 2009 and 2008, respectively. This Director has announced his intended retirement from that electrical utility effective March 31, 2010.

Note 21: Discontinued Operations

In 2007, the Company completed the sale of its Residuals business for $9,660. There was no gain or loss recorded on the sale. Summarized results during 2007 of this business included operating revenues of $7,128, pre-tax loss of $636, and a tax benefit of $85, resulting in a loss from discontinued operations of $551. There were no assets or liabilities classified as discontinued operations in the accompanying Consolidated Balance Sheets at December 31, 2009 and 2008, respectively.

Note 22: Segment Information

The Company has two operating segments referred to as the Regulated Businesses and Non-Regulated Businesses segments. The Company s chief operating decision maker regularly reviews the operating results of the Regulated and Non-Regulated Businesses segments to assess segment performance and allocate resources. The evaluation of segment performance and the allocation of resources are based on several measures. The measure that is most consistent with that used by management is adjusted earnings before interest and income taxes from continuing operations (Adjusted EBIT).

The Regulated Businesses segment includes the Company s 23 utility subsidiaries that provide water and wastewater services to customers in 20 U.S. states. With the exception of one company, each of these public utility subsidiaries is subject to regulation by public utility commissions and local governments. In addition to providing similar products and services and being subject to the public utility regulatory environment, each of the regulated subsidiaries has similar economic characteristics, production processes, types and classes of customers and water distribution or wastewater collection processes. Each of these companies is also subject to both federal and state regulation regarding the quality of water distributed and the discharge of wastewater residuals.

The Non-Regulated Businesses segment is comprised of non-regulated businesses that provide a broad range of non-regulated water and wastewater services and products including homeowner water and sewer line maintenance services, water and wastewater facility operations and maintenance services, granular carbon technologies and products for cleansing water and wastewater, wastewater residuals management services and water and wastewater facility engineering services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2). The Regulated and Non-Regulated Businesses segment information includes intercompany costs that are allocated by American Water Works Service Company, Inc. and intercompany interest that is charged by AWCC, which are eliminated to reconcile to the consolidated results of operations. Inter-segment revenues, which are primarily recorded at cost plus mark-up that approximates current market prices, include carbon regeneration services and leased office space, furniture and equipment provided by the Company s non-regulated subsidiaries to its regulated subsidiaries. Other includes corporate costs that are not allocated to the Company s subsidiaries, eliminations of inter-segment transactions, fair value adjustments and

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associated income and deductions related to the Acquisitions that have not been allocated to the segments for evaluation of segment performance and allocation of resource purposes. The adjustments related to the Acquisitions are reported in Other, as they are excluded from segment performance measures evaluated by management. The following table includes the Company s summarized segment information:

	As of or for the Year Ended December 31, 2009			
	Regulated	Non-Regulated	Other	Consolidated
Net operating revenues	$ 2,207,290	$ 257,710	$ (24,297)	$ 2,440,703
Depreciation and amortization	272,462	5,871	15,907	294,240
Impairment charge			450,000	450,000
Total operating expenses, net	1,617,815	238,072	411,207	2,267,094
Adjusted EBIT(1)	591,606	21,264		
Total assets	11,659,525	247,594	1,545,532	13,452,651
Capital expenditures	779,428	5,837		785,265

	As of or for the Year Ended December 31, 2008			
	Regulated	Non-Regulated	Other	Consolidated
Net operating revenues	$ 2,082,740	$ 272,186	$ (17,998)	$ 2,336,928
Depreciation and amortization	254,803	5,858	10,600	271,261
Impairment charge			750,000	750,000
Total operating expenses, net	1,554,731	248,425	720,668	2,523,824
Adjusted EBIT(1)	531,774	26,307		
Total assets	10,941,133	244,891	2,045,794	13,231,818
Capital expenditures	1,005,360	3,446		1,008,806

	As of or for the Year Ended December 31, 2007			
	Regulated	Non-Regulated	Other	Consolidated
Net operating revenues	$ 1,987,565	$ 242,678	$ (16,028)	$ 2,214,215
Depreciation and amortization	254,998	10,295	2,042	267,335
Impairment charge			509,345	509,345
Total operating expenses, net	1,490,794	225,600	482,692	2,199,086
Adjusted EBIT(1)	500,088	23,579		
Total assets	10,180,482	280,692	2,490,153	12,951,327
Capital expenditures	738,824	11,986		750,810

(1) Management evaluates the performance of its segments and allocates resources based on several factors, of which the primary measure is Adjusted EBIT. Adjusted EBIT does not represent cash flow for periods presented and should not be considered as an alternative to net income as an indicator of the Company s operating performance or as an alternative to cash flows as a source of liquidity. Adjusted EBIT as defined by the Company may not be comparable with Adjusted EBIT as defined by other companies.

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The following table reconciles Adjusted EBIT, as defined by the Company, to loss from continuing operations before income taxes:

	For the Year Ended December 31, 2009		
	Regulated	Non-Regulated	Total Segments
Adjusted EBIT	$ 591,606	$ 21,264	$ 612,870
Add:			
Allowance for other funds used during construction	11,486		11,486
Allowance for borrowed funds used during construction	7,224		7,224
Less:			
Interest, net	(231,858)	3,005	(228,853)
Amortization of debt expense	(6,089)		(6,089)
Segments income from continuing operations before income taxes	$ 372,369	$ 24,269	396,638
Impairment charge			(450,000)
Interest, net			(67,692)
Other			9,389
Loss from continuing operations before income taxes			$ (111,665)

	For the Year Ended December 31, 2008		
	Regulated	Non-Regulated	Total Segments
Adjusted EBIT	$ 531,774	$ 26,307	$ 558,081
Add:			
Allowance for other funds used during construction	14,497		14,497
Allowance for borrowed funds used during construction	8,171		8,171
Less:			
Interest, net	(227,384)	2,958	(224,426)
Amortization of debt expense	(5,346)		(5,346)
Segments income from continuing operations before income taxes	$ 321,712	$ 29,265	350,977
Impairment charge			(750,000)
Interest, net			(60,729)
Other			9,158
Loss from continuing operations before income taxes			$ (450,594)

	For the Year Ended December 31, 2007		
	Regulated	Non-Regulated	Total Segments
Adjusted EBIT	$ 500,088	$ 23,579	$ 523,667
Add:			
Allowance for other funds used during construction	7,759		7,759
Allowance for borrowed funds used during construction	3,449		3,449
Less:			
Interest, net	(219,371)	(8,629)	(228,000)
Amortization of debt expense	(5,169)		(5,169)
Segments income from continuing operations before income taxes	$ 286,756	$ 14,950	301,706
Impairment charge			(509,345)
Interest, net			(55,165)
Other			7,285

Loss from continuing operations before income taxes	$	(255,519)

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Note 23: Unaudited Quarterly Data

The following table sets forth certain supplemental unaudited consolidated quarterly financial data for each of the four quarters in the period ended December 31, 2009 and 2008, respectively. The operating results for any quarter are not indicative of results that may be expected for a full year or any future periods.

2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)			
Operating revenues	$ 550,170	$ 612,740	$ 679,956	$ 597,837
Operating income (loss)	(335,370)	157,192	214,406	137,381
Income (loss) from continuing operations	(413,079)	51,989	91,636	36,371
Net income (loss)	(413,079)	51,989	91,636	36,371
Basic and diluted earnings (loss) per common share	$ (2.58)	$ 0.32	$ 0.52	$ 0.21

2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)			
Operating revenues	$ 506,815	$ 589,369	$ 672,193	$ 568,551
Operating income (loss)	(670,358)	142,658	211,754	129,050
Income (loss) from continuing operations	(732,484)	45,498	88,158	36,407
Net income (loss)	(732,484)	45,498	88,158	36,407
Basic and diluted earnings (loss) per common share	$ (4.58)	$ 0.28	$ 0.55	$ 0.23

Amounts may not sum due to rounding; per share amounts may not sum due to changes in shares outstanding during the year.

Income (loss) from continuing operations includes impairment losses of $450,000 and $750,000 in the first quarters of 2009 and 2008, respectively.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of December 31, 2009 pursuant to 15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2009, our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded,

processed, summarized and reported within the time periods specified in the SEC s rules and forms.

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Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed by or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting, as of December 31, 2009, using the criteria described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our evaluation under the framework in Internal Control Integrated Framework issued by COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2009.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing in Part II, Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2009, we completed our remediation actions and tested the controls relating to the maintenance of contracts and agreements, specifically that effective controls did not exist to ensure the accuracy and completeness of accounting and disclosure for such contracts and agreements, as described in Item 4 of our September 30, 2009 Form 10-Q. Based on the results of our testing, we have concluded that this material weakness has been remediated as of December 31, 2009. There were no other changes in our internal control over financial reporting that occurred during the last fiscal quarter ended December 31, 2009 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10A. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

The information required by this item and not given in Item 10B below, is incorporated by reference in the Company s Proxy Statement for the 2010 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the fiscal year covered by this report, under the captions entitled Nominees for Election as Directors , Information Relative to the Board of Directors and Committees of the Board of Directors , Section 16(a) Beneficial Ownership Reporting Compliance , and Code of Ethics and Corporate Governance Guidelines .

We have adopted a Code of Ethics, which applies to directors and employees. The full text of the Code of Ethics is publicly available on our website at *http://www.amwater.com*. We intend to post on our website any amendments to certain provisions of our Code of Ethics and any waivers of such provisions granted to principal officers.

ITEM 10B. EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Office and Employment During Last Ten Years
Donald L. Correll	59	Mr. Correll has been our President and Chief Executive Officer and a member of our board of directors since April 2006. Prior to joining American Water, Mr. Correll spent three years serving as President and Chief Executive Officer and a member of the board of directors of Pennichuck Corporation, a New Hampshire-based water utility holding company. He previously spent 25 years with United Water Resources, an investor-owned water services company, where he served as Chairman, President and Chief Executive Officer from 1991 through 2001.
		He is a member of the board of directors of HealthSouth Corporation and New Jersey Resources Corporation. Mr. Correll also serves on the boards of a variety of civic, professional and business organizations, including the U.S. Environmental Financial Advisory Board of the United States and the Environmental Protection Agency and the U.S. Chamber of Commerce.
John S. Young	56	Mr. Young as been our President of American Water Services since July 2008, a newly created executive officer position that supports our growth initiatives and service offerings. He is also President of American Water Works Service Company, which provides operating support to all aspects of our business. Prior to July 2008, Mr. Young was our Chief Operating Officer and served as a member of our board of directors from October 2005 until August 2007. Mr. Young began his career with us in 1977 and has held a variety of operations, engineering and executive positions, including Vice President of Engineering, Vice President of Technical Services and Vice President of Operations and Investment Performance. Mr. Young is a member of several professional organizations, including the Design/Build Institute of America (board member), the American Water Works Association (board member, section chair and Fuller Awardee) and the American Society of Civil Engineers. He also serves on the National Drinking Water Advisory Council.

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Name	Age	Office and Employment During Last Ten Years
Ellen C. Wolf	56	Ms. Wolf has been our Senior Vice President and Chief Financial Officer since March 2006 and served as a member of our board of directors from March 2006 until August 2007. Ms. Wolf s career began in the accounting firm of Deloitte Haskins & Sells. From 1987 through 1999, Ms. Wolf held various positions in corporate accounting, finance and business development for Bell Atlantic and several of its subsidiaries, including Bell Atlantic Enterprises International, Bell Atlantic Mobile, and Bell Atlantic Corporation. From 1999 through 2003, Ms. Wolf was employed by us as Vice President and Chief Financial Officer. Prior to re-joining us, Ms. Wolf served as Senior Vice President and Chief Financial Officer of USEC Inc., a global energy company, a position she held beginning in December 2003. Currently, Ms. Wolf also serves on the board of directors of C&D Technologies, Inc., where she serves as chair of its audit committee, and the board of directors of Airgas, Inc., where she serves on the audit committee. In addition, Ms. Wolf is on the board of directors of the National Association of Water Companies, the board of directors of Water for People, a humanitarian organization and the board of directors of the Philadelphia Zoo.
Walter J. Lynch	47	Mr. Lynch has been our President of Regulated Operations since July 2008. Prior to that date, he served as Executive Vice President, Eastern Division. He also served as president of New Jersey American Water, Long Island American Water and our Northeast Region. Mr. Lynch joined us in 2001 and served as President of our Products and Services Group, where he was responsible for overseeing our non-regulated businesses. Prior to this, he was President of the Southwest Region of American Water Services. Mr. Lynch has more than 16 years of experience in engineering, sales and marketing, operations and business development. Before joining us, he was involved with various start-up and growth organizations in the environmental industry. Mr. Lynch worked for Mobil Oil Corporation following his departure from the United States Army where he attained the rank of Captain. In addition, Mr. Lynch is on the board of directors of the National Association of Water Companies and serves on its Executive Committee.
Laura L. Monica	53	Ms. Monica has been our Senior Vice President, Corporate Communications and External Affairs since October 2006. From 1991 to October 2006, Ms. Monica was president of High Point Communications Group, Inc., which we refer to as High Point, a strategic communications firm in Bow, New Hampshire, that she founded. At High Point she worked with a wide variety of clients in both the public and private sector, assisting them in developing and implementing comprehensive, strategic communications plans. Before forming High Point, Ms. Monica was head of corporate communications for Numerica Financial Corporation.
Kellye L. Walker	43	Ms. Walker has been our Senior Vice President, General Counsel and Secretary since January 2010. From February 2007 to June 2009, Ms. Walker served as Senior Vice President and General Counsel of Diageo North America, Inc., the largest operating company of Diageo plc. From February 2003 to December 2006, Ms. Walker served as Senior Vice President, General Counsel and Secretary of BJ s Wholesale Club, Inc., a leading warehouse club operator. Ms. Walker also served as a partner with

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Name	Age	Office and Employment During Last Ten Years
		the law firm of Hill & Barlow in Boston, Massachusetts, and as a partner and/or associate with the law firms of Chaffe, McCall, Phillips, Toler & Sarpy in New Orleans, Louisiana, and Boult, Cummings, Connors & Berry in Nashville, Tennessee.
Sean G. Burke	54	Mr. Burke has been our Senior Vice President Human Resources since December 2007. From 2005 to December 2007, Mr. Burke was the principal of Executive Alignment, LLC, an executive assessment and executive compensation consulting practice, in Falmouth, Maine. From 1988 to 2005, Mr. Burke held executive positions at American Ref-Fuel Company, in Houston, Texas and Montvale, New Jersey, responsible for oversight of the Human Resources function. Earlier, he held leadership positions with other companies including Air Products and Chemicals Inc., Frito-Lay and National Steel Corp.
William D. Patterson	55	Mr. Patterson has been our Senior Vice President of Corporate and Business Development since February 2009. From 2005 to 2008, he was an officer of Pennichuck Corporation, an investor-owned water company located in New Hampshire, where he served as vice president and chief financial officer from 2005 to 2006, and senior vice president from 2006 to 2008. From January 2003 to January 2005, Mr. Patterson served as executive advisor to Concentric Energy Advisors, a private firm located in Marlborough, Massachusetts, providing financial advisory and consulting services for utilities. From June 2001 through January 2005, Mr. Patterson provided financial advisory and consulting services for utilities as president of EnSTAR Management Corporation, a company which he founded. From 2000 to 2001, Mr. Patterson served as CFO of Enermetrix, a software-based company that provides solutions for competitive energy markets. From 1996 to 2000, Mr. Patterson was an investment advisor with Craig Drill Capital and from 1978 to 1996, he was a managing director with Smith Barney, and also served as a utility investment banker for Shearson Lehman and E.F. Hutton. Mr. Patterson serves on the board of directors of MYR Group Inc. where he serves as chair of the audit committee.
James M. Kalinovich	42	Mr. Kalinovich has been our Vice President and Treasurer since December 2004. From 2000 to 2004, Mr. Kalinovich served as Vice President and Treasurer of Amkor Technology, Inc. He held executive positions at Merck & Company, Inc. in the United States and London from 1994 to 2000, and worked as a certified public accountant at Deloitte & Touche from 1989 to 1991.
Mark Chesla	50	Mr. Chesla has been our Vice President and Controller since November 2007. From 2001 to November 2007, Mr. Chesla was Vice President and Controller of Oglethorpe Power Corporation, in Atlanta, Georgia, where he served as that company s chief accounting officer. In this capacity he was responsible for all aspects of the accounting, internal financial management, regulatory and SEC reporting functions. Mr. Chesla was Vice President, Administration/Controller of SouthStar Energy Services LLC, in Atlanta, Georgia, from 1998 to 2001. Earlier, he held management positions with several other companies, including Piedmont Natural Gas Co., Inc., Aegis Technologies, Inc., Deloitte & Touche LLP and Carolina Power & Light Company.

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Name	Age	Office and Employment During Last Ten Years
Mark F. Strauss	58	Mr. Strauss has been President of American Water Enterprises, which manages our Non-Regulated Businesses since December 2006. Previously, Mr. Strauss was President and Chief Executive Officer of our Applied Water Management Group, which provides customized water and wastewater management solutions to real estate developers, industrial clients and small to midsized communities nationwide. Mr. Strauss joined Applied Water Management Group in 1997 as Corporate Counsel and Secretary. He was promoted to Chief Operating Officer in 2002, a position he held until his appointment as Division President and Chief Executive Officer in 2003. Earlier, he served as Vice President and General Counsel of Vizzoni Brothers Construction, Inc. Mr. Strauss serves as a director of Skylands Community Bank. Mr. Strauss was also an associate at the law firms of Ozzard, Rizzolo, Klein, Mauro & Savo and Toolan, Romond, Abbot and Domenichetti.
Nick O. Rowe	52	Mr. Rowe has been President of Kentucky American Water since 2006, and Senior Vice President of our Eastern Division since January 2009. From 2005 to 2006, he served as Vice President of Service Delivery Operations for the Southeast Region of Kentucky American Water. From 2003 to 2005, he served as Vice President, Business Change for American Water in New Jersey and from 1998 to 2003, Mr. Rowe was Vice President of Operations for Kentucky American Water, and from 1987 to 1998, he served in various management positions with responsibility for the day-to-day operations of American Water facilities in several states including Virginia, West Virginia, Maryland, Pennsylvania, Kentucky, Tennessee, North Carolina, Georgia and Florida. Mr. Rowe is involved with various regulatory agencies and civic and professional organizations. He also serves on the Executive Board of the Kentucky Chamber of Commerce, is a member of the American Water Works Association and the National Association of Water Companies.
Kathy L. Pape	57	Ms. Pape has been President of Pennsylvania American Water since July 2007. From 1999 to 2007, Ms. Pape served as Senior Vice President, Treasurer and Rate Counsel for Aqua America, Inc. with responsibility for all financing activities, billing, rates and regulatory filings, budgeting and long-range planning. From 1994 to 1999, Ms. Pape was employed by us as Regional Counsel and Finance Manager, where her responsibilities included rates and regulatory affairs, finance, budgeting and customer service for 10 states. Prior to 1994, Ms. Pape was Vice President and Corporate Counsel for General Waterworks Management and Service Co., Assistant Counsel to the Pennsylvania Public Utility Commission and Assistant Consumer Advocate for the Pennsylvania Office of Consumer Advocate.
John R. Bigelow	55	Mr. Bigelow has been President of New Jersey American Water since 2007. Mr. Bigelow joined American Water in 1994 and held a number of senior management positions during his tenure, including American Water s Senior Vice President of Regulatory Programs and Enterprise Risk Management. From December 2003 to February 2006, Mr. Bigelow served as American Water s Chief Financial Officer, Vice President and Treasurer of New Jersey American Water, and Director, Vice President and Treasurer of New Jersey American Resources Co. Mr. Bigelow began his career with GPU System Companies, where he spent 18 years in various leadership roles in the finance area. Mr. Bigelow is also a board and/or committee member of Drexel MBA Career Services Advisory Board, NJAWC (New Jersey American Water Company), William J. Hughes Center for Public Policy, and NJUA (New Jersey Utilities Association).

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ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference in the Company s Proxy Statement for the 2010 Annual Meeting of Stockholders, under the captions entitled Executive Compensation , Compensation Discussion and Analysis , Compensation Committee Report and Director Compensation .

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item setting forth the security ownership of certain beneficial owners and management is incorporated by reference in the Company s Proxy Statement for the 2010 Annual Meeting of Stockholders, under the caption entitled Security Ownership of Principal Stockholders and Management and the Equity Compensation Plan table appearing under the caption Long-Term Equity Incentive Compensation .

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference in the Company s Proxy Statement for the 2010 Annual Meeting of Stockholders, under the captions entitled Certain Relationships and Related Transactions and Director Independence .

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference in the Company s Proxy Statement for the 2010 Annual Meeting of Stockholders, under the caption entitled Independent Registered Public Accounting Fees and Services .

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial statement schedules have been omitted since they are either not required, not applicable as the information is otherwise included in the financial statements or notes thereto.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 1st day of March, 2010.

AMERICAN WATER WORKS COMPANY, INC.

BY: /s/ DONALD L. CORRELL
Donald L. Correll
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed on the 27th day of February, 2009 by the following persons in the capacities indicated.

/s/ DONALD L. CORRELL Donald L. Correll	/s/ RICHARD R. GRIGG
President and Chief Executive Officer	Richard R. Grigg
(Principal Executive Officer and Director)	(Director)
/s/ ELLEN C. WOLF Ellen C. Wolf	/s/ JULIA L. JOHNSON Julia L. Johnson
Senior Vice President and Chief Financial Officer	(Director)
(Principal Financial and Accounting Officer)	
/s/ GEORGE MACKENZIE George MacKenzie	/s/ WILLIAM J. MARRAZZO William J. Marrazzo
(Director)	(Director)
/s/ MARTHA CLARK GOSS Martha Clark Goss	/s/ STEPHEN P. ADIK Stephen P. Adik
(Director)	(Director)
/s/ JULIE A. DOBSON Julie A. Dobson	
(Director)	

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1	Agreement and Plan of Merger, dated as of September 16, 2001, among RWE Aktiengesellschaft, Thames Water Aqua Holdings GmbH, Apollo Acquisition Company and American Water Works Company, Inc. (incorporated by reference to Exhibit 2.1 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
2.2	Separation Agreement by and among RWE Aktiengesellschaft and American Water Works Company, Inc. (incorporated by reference to Exhibit 2.2 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc. s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008.)
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to American Water Works Company, Inc. s Form 8-K, File No. 001-34028, filed January 5, 2010.)
4.1	Indenture, dated as of October 22, 2007 between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.4 to American Water Capital Corp. s Registration Statement on Form S-4, File No. 333-148284, and American Water Works Company, Inc. s Registration Statement on Form S-4, File No. 333-148284-01, filed December 21, 2007).
4.2	Indenture between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc. s Form 8-K, File No. 001-34028, filed December 3, 2008).
4.3	Note Purchase Agreement, as amended, dated as of December 21, 2006, by and between American Water Capital Corp. and the Purchasers named therein for purchase of $101,000,000 5.39% Series A Senior Notes due 2013, $37,500,000 5.52% Series B Senior Notes due 2016, $329,500,000 5.62% Series C Senior Notes due 2018 and $432,000,000 5.77% Series D Senior Notes due 2021 (incorporated by reference to Exhibit 4.2 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
4.4	Note Purchase Agreement, as amended, dated as of March 29, 2007, by and between American Water Capital Corp. and the Purchasers named therein for purchase of $100,000,000 5.62% Series E Senior Notes due 2019 and $100,000,000 5.77% Series F Senior Notes due 2022 (incorporated by reference to Exhibit 4.3 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
4.5	Note Purchase Agreement, dated May 15, 2008, by and between AWCC and the Purchasers named therein for purchase of $110,000,000 6.25% Series G Senior Notes due 2018 and $90,000,000 6.55% Series H Senior Notes due 2023 (incorporated herein by reference to Exhibit 10.1 to American Water Works Company, Inc. s Current Report on Form 8-K, File No. 001-34028, filed on May 19, 2008).
9.1	Exchange and Registration Rights Agreement, dated as of October 22, 2007, between American Water Capital Corp., American Water Works Company, Inc. and Citigroup Global Markets Inc, Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of the several purchasers (incorporated by reference to Exhibit 4.4 to American Water Capital Corp. s Registration Statement on Form S-4, File No. 333-148284, and American Water Works Company, Inc. s Registration Statement on Form S-4, File No. 333-148284-01, filed December 21, 2007).

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Exhibit Number	Exhibit Description
9.2	Registration Rights Agreement by and among American Water Works Company, Inc., RWE Aktiengesellschaft and RWE Aqua Holdings GmbH (incorporated by reference to Exhibit 9.1 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
*10.1	Agreement between George W. Patrick and American Water Works Company, Inc., dated August 27, 1999.
*10.2A	Change in Control Agreement between George W. Patrick and American Water Works Company, Inc., dated January 1, 2000.
*10.2B	First Amendment to Change in Control Agreement between George W. Patrick and American Water Works Company, Inc., dated May 24, 2004.
*10.2C	Second Amendment to Change in Control Agreement between George W. Patrick and American Water Works Company, Inc., dated July 27, 2005.
*10.2D	Third Amendment to Change in Control Agreement between George W. Patrick and American Water Works Company, Inc., dated December 19, 2008.
10.3	Credit Agreement, dated as of September 15, 2006, among American Water Capital Corp., the Lenders identified therein and JPMorgan Chase Bank, N.A (incorporated by reference to Exhibit 10.1 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.4	Support Agreement, as subsequently amended, dated June 22, 2000, by and between American Water Works Company, Inc. and American Water Capital Corp. (incorporated by reference to Exhibit 10.3 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.5	Employment Agreement between Donald L. Correll and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
10.6	Employment Agreement between Ellen C. Wolf and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
10.7	RWE Long-Term Incentive Beat Plan 2005, dated as of April 20, 2005 (incorporated by reference to Exhibit 10.7 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.8	Amended and Restated American Water Works Company, Inc. Executive Retirement Plan, dated as of March 1, 2007 (incorporated by reference to Exhibit 10.8 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.9	Amended and Restated American Water Works Company, Inc. Deferred Compensation Plan, dated as of January 1, 2001 (incorporated by reference to Exhibit 10.9 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).

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Exhibit Number	Exhibit Description
10.10	Settlement Agreement by and between California American Water Company and the U.S. Department of Commerce, National Oceanic and Atmospheric Administration, dated as of June 29, 2006 (incorporated by reference to Exhibit 10.12 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
10.11	2004 Thames Water/RWE Long-Term Incentive Plan, dated as of January 1, 2004 (incorporated by reference to Exhibit 10.13 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.12	American Water Works Company, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.15 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.13	Form of Executive Completion Bonus in connection with the RWE Divestiture, dated as of March 20, 2006 (incorporated by reference to Exhibit 10.16 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.14	Form of Retention Agreement in connection with the RWE Divestiture, dated as of March 20, 2006 (incorporated by reference to Exhibit 10.17 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.15	American Water Works, Inc. Executive Severance Policy, dated as of June 14, 2006
	(incorporated by reference to Exhibit 10.18 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.16	2007 American Water Senior Management Annual Incentive Plan (incorporated by reference to Exhibit 10.20 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.17	2006 American Water Senior Management Annual Incentive Plan (incorporated by reference to Exhibit 10.21 to American Water Capital Corp. s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.18	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (incorporated by reference to Exhibit 10.22 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.19	Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and its Designated Subsidiaries (incorporated by reference to Exhibit 10.23 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 26, 2008).
10.20	Nonqualified Deferred Compensation Plan for Non-Employee Directors of American Water Works Company, Inc. (incorporated by reference to Exhibit 10.24 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed March 26, 2008).
10.21	2008 American Water Senior Management Annual Incentive Plan (incorporated by reference to Exhibit 10.25 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-145725, filed April 15, 2008).

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Exhibit Number	Exhibit Description
10.22	2009 American Water Senior Management Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc. s Current Report on Form 8-K, File No. 001-34028, filed February 26, 2009).
10.23	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan First Restricted Stock Unit Grant Form for ML1-ML3 Employees (incorporated by reference to Exhibit 10.26 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed on May 6, 2008).
10.24	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan First Restricted Stock Unit Grant Form for ML4 Employees (incorporated by reference to Exhibit 10.27 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed on May 6, 2008).
10.25	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Restricted Stock Unit Grant Form for Directors (incorporated by reference to Exhibit 10.28 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed on May 6, 2008).
10.26	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Second Restricted Stock Unit Grant Form for ML1-ML3 Employees (incorporated by reference to Exhibit 10.29 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed May 6, 2008).
10.27	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Second Restricted Stock Unit Grant Form for ML4 Employees (incorporated by reference to Exhibit 10.30 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed May 6, 2008).
10.28	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan First Nonqualified Stock Option Grant Form for ML1-ML3 Employees (incorporated by reference to Exhibit 10.31 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed May 6, 2008).
10.29	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan First Nonqualified Stock Option Grant Form for ML4 Employees (incorporated by reference to Exhibit 10.32 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed May 6, 2008).
10.30	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Nonqualified Stock Option Grant Form for Directors (incorporated by reference to Exhibit 10.33 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed May 6, 2008).
10.31	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Second Nonqualified Stock Option Grant Form for ML1-ML3 Employees (incorporated by reference to Exhibit 10.34 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed May 6, 2008).
10.32	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Second Nonqualified Stock Option Grant Form for ML4 Employees (incorporated by reference to Exhibit 10.34 to American Water Works Company, Inc. s Registration Statement on S-4/A, filed May 6, 2008).
10.33	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Performance Stock Unit Grant Form for ML1-ML3B Employees (incorporated by reference to Exhibit 10.36 to American Water Works Company, Inc. s Annual Report on Form 10-K, File No. 001-34028, filed February 27, 2009).
10.34	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Performance Stock Unit Grant Form for ML4-ML5 Employees (incorporated by reference to Exhibit 10.37 to American Water Works Company, Inc. s Annual Report on Form 10-K, File No. 001-34028, filed February 27, 2009).

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Exhibit Number	**Exhibit Description**
10.35	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Nonqualified Stock Option Grant Form for ML1-ML3B Employees (incorporated by reference to American Water Works Company, Inc. s Current Report on Form 8-K, File No. 001-34028, filed February 26, 2009).
10.36	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Nonqualified Stock Option Grant Form for ML4-ML5 Employees (incorporated by reference to American Water Works Company, Inc. s Current Report on Form 8-K, File No. 001-34028, filed February 26, 2009).
10.37	Amendment to the Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and its Designated Subsidiaries, effective as of August 1, 2008 (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc. s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008.)
10.38	Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and Its Designated Subsidiaries, as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.37 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).
10.39	Nonqualified Deferred Compensation Plan for Non-Employee Directors of American Water Works Company, Inc., as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.38 to American Water Works Company, Inc. s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).
10.40	Amendment to the Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and its Designated Subsidiaries, effective as of February 6, 2009 (incorporated by reference to Exhibit 10.6 to American Water Works Company, Inc. Current Report on Form 8-K, File No. 001-34028, filed February 26, 2009)
10.41	Amendment to the Nonqualified Deferred Compensation Plan for Non-Employee Directors of American Water Works Company, Inc., effective as of February 6, 2009 (incorporated by reference to Exhibit 10.7 to American Water Works Company, Inc. Current Report on Form 8-K, File No. 001-34028, filed February 26, 2009)
*21.1	Subsidiaries of American Water Works Company, Inc.
*23.1	Consent of PricewaterhouseCoopers LLP.
*31.1	Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*32.1	Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*32.2	Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.

* filed herewith