

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

CONFORMED COPY

FORM 10-Q Page 1 of 18

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from to

Commission File Number 1-3437-2

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware 51-0063696

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

1025 Laurel Oak Road, Voorhees, New Jersey 08043

(Address of principal executive offices) (Zip Code)

(856) 346-8200

(Registrant's telephone number, including area code)

Not Applicable

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

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

At August 1, 2001, the number of shares of common stock, \$1.25 par value,
outstanding was 99,610,369 shares.

PART I FINANCIAL INFORMATION

 Item 1. Financial Statements

 AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

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

	Three Months Ended June 30,	
	2001	2000
	-----	-----
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	\$363,878	\$346,409
	-----	-----
Operating expenses		
Operation and maintenance	160,476	154,270
Depreciation and amortization	45,069	40,589
General taxes	32,465	31,539
	-----	-----
Total operating expenses	238,010	226,398
	-----	-----
Operating income	125,868	120,011
	-----	-----
Other income (deductions)		
Interest	(48,544)	(47,728)
Allowance for other funds used during construction	1,185	1,800
Allowance for borrowed funds used during construction	1,088	1,397
Amortization of debt expense	(710)	(708)
Preferred dividends of subsidiaries	(742)	(795)
Other, net	3,066	234
	-----	-----
Total other income (deductions)	(44,657)	(45,800)
	-----	-----
Income before income taxes	81,211	74,211
Provision for income taxes	31,830	29,072
	-----	-----
Net income	49,381	45,139
Dividends on preferred stocks	146	996
	-----	-----
Net income to common stock	49,235	44,143
	-----	-----
Other comprehensive income (loss), net of tax		
Unrealized loss on securities	(2,463)	(31,002)
Reclassification adjustment for gain included in net income	(2,052)	-
	-----	-----
Other comprehensive income (loss), net of tax	(4,515)	(31,002)
	-----	-----
Comprehensive income	\$ 44,720	\$ 13,141
	=====	=====

Edgar Filing: AMERICAN WATER WORKS CO INC - Form 10-Q

Page 3

FORM 10-Q

	Three Months Ended June 30,	
	2001	2000
	-----	-----
Average shares of basic common stock outstanding	99,256	97,816
Basic and diluted earnings per common share on average shares outstanding	\$ 0.50	\$ 0.45
	=====	=====
 CONSOLIDATED RETAINED EARNINGS		
Balance at April 1	\$1,069,927	\$1,005,216
Add - net income	49,381	45,139
- treasury stock issuances, net	406	(944)
	-----	-----
	1,119,714	1,049,411
	-----	-----
Deduct - dividends paid		
Preferred stock	32	882
Preference stock	114	114
Common stock - \$.235 per share in 2001; \$.225 per share in 2000	23,297	21,998
	-----	-----
	23,443	22,994
	-----	-----
Balance at June 30	\$1,096,271	\$1,026,417
	=====	=====

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

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

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

	Six Months Ended June 30,	
	2001	2000
	-----	-----
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	\$680,305	\$654,168
	-----	-----
Operating expenses		
Operation and maintenance	311,299	298,628
Depreciation and amortization	89,429	80,413
General taxes	65,776	64,668
	-----	-----
Total operating expenses	466,504	443,709
	-----	-----
Operating income	213,801	210,459
	-----	-----
Other income (deductions)		
Interest	(97,141)	(94,474)
Allowance for other funds used during construction	2,266	4,506
Allowance for borrowed funds used during construction	2,067	3,279
Amortization of debt expense	(1,388)	(1,390)
Preferred dividends of subsidiaries	(1,525)	(1,593)
Other, net	2,395	(1,074)
	-----	-----
Total other income (deductions)	(93,326)	(90,746)
	-----	-----
Income before income taxes	120,475	119,713
Provision for income taxes	47,633	47,491
	-----	-----
Net income	72,842	72,222
Dividends on preferred stocks	292	1,992
	-----	-----
Net income to common stock	72,550	70,230
	-----	-----
Other comprehensive income (loss), net of tax		
Unrealized loss on securities	(4,457)	(23,206)
Reclassification adjustment for gain included in net income	(2,052)	-
	-----	-----
Other comprehensive income (loss), net of tax	(6,509)	(23,206)
	-----	-----
Comprehensive income	\$ 66,041	\$ 47,024
	=====	=====

Edgar Filing: AMERICAN WATER WORKS CO INC - Form 10-Q

Page 5

FORM 10-Q

	Six Months Ended June 30,	
	2001	2000
	-----	-----
Average shares of basic common stock outstanding	99,066	97,647
Basic and diluted earnings per common share on average shares outstanding	\$ 0.73	\$ 0.72
	=====	=====
CONSOLIDATED RETAINED EARNINGS		
Balance at January 1	\$1,069,486	\$1,001,029
Add - net income	72,842	72,222
- treasury stock issuances, net	744	(944)
	-----	-----
	1,143,072	1,072,307
	-----	-----
Deduct - dividends paid		
Preferred stock	64	1,764
Preference stock	228	228
Common stock - \$.47 per share in 2001; \$.45 per share in 2000	46,509	43,898
	-----	-----
	46,801	45,890
	-----	-----
Balance at June 30	\$1,096,271	\$1,026,417
	=====	=====

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

Edgar Filing: AMERICAN WATER WORKS CO INC - Form 10-Q

Page 6

FORM 10-Q

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet (Unaudited)
(In thousands)

	June 30 2001	December 31 2000
	-----	-----
ASSETS		
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	\$ 5,312,984	\$ 5,202,833
Utility plant acquisition adjustments, net	73,193	75,294
Non-utility property, net of accumulated depreciation	44,603	37,831
Excess of cost of investments in subsidiaries over book equity at acquisition, net	54,754	55,590
	-----	-----
Total property, plant and equipment	5,485,534	5,371,548
	-----	-----
Current assets		
Cash and cash equivalents	17,772	28,571
Customer accounts receivable	110,638	103,975
Allowance for uncollectible accounts	(2,965)	(2,575)
Unbilled revenues	99,215	83,878
Miscellaneous receivables	17,178	15,117
Materials and supplies	22,614	20,683
Deferred vacation pay	13,936	10,923
Other	18,128	17,124
	-----	-----
Total current assets	296,516	277,696
	-----	-----
Regulatory and other long-term assets		
Regulatory asset - income taxes recoverable through rates	216,053	216,652
Other investments	62,142	73,997
Debt and preferred stock expense	47,140	47,630
Deferred pension expense	27,115	23,479
Deferred postretirement benefit expense	9,724	10,129
Deferred business services project costs	24,380	4,796
Deferred tank painting costs	16,528	16,829
Restricted funds	8,590	8,343
Other	95,856	83,699
	-----	-----
Total regulatory and other long-term assets	507,528	485,554
	-----	-----
TOTAL ASSETS	\$ 6,289,578	\$ 6,134,798
	=====	=====

Page 7

FORM 10-Q

Edgar Filing: AMERICAN WATER WORKS CO INC - Form 10-Q

	June 30 2001 -----	December 31 2000 -----
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stockholders' equity	\$ 1,711,786	\$ 1,669,677
Preferred stocks without mandatory redemption requirements	11,673	11,673
Preferred stocks of subsidiaries with mandatory redemption requirements	30,962	32,902
Preferred stocks of subsidiaries without mandatory redemption requirements	8,118	8,118
Long-term debt		
American Water Works Company, Inc.	159,000	159,000
Subsidiaries	2,213,488	2,112,165
	-----	-----
Total capitalization	4,135,027	3,993,535
	-----	-----
Current liabilities		
Short-term debt	418,351	412,179
Current portion of long-term debt	140,307	161,395
Accounts payable	37,735	52,447
Taxes accrued, including federal income	53,393	25,960
Interest accrued	42,507	42,641
Accrued vacation pay	14,203	11,564
Other	59,428	67,865
	-----	-----
Total current liabilities	765,924	774,051
	-----	-----
Regulatory and other long-term liabilities		
Advances for construction	221,094	216,125
Deferred income taxes	607,842	605,343
Deferred investment tax credits	39,380	40,098
Accrued pension expense	58,081	50,414
Accrued postretirement benefit expense	13,531	13,930
Other	40,525	37,823
	-----	-----
Total regulatory and other long-term liabilities	980,453	963,733
	-----	-----
Contributions in aid of construction	408,174	403,479
	-----	-----
Commitments and contingencies	--	--
	-----	-----
TOTAL CAPITALIZATION AND LIABILITIES	\$ 6,289,578	\$ 6,134,798
	=====	=====

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

Edgar Filing: AMERICAN WATER WORKS CO INC - Form 10-Q

Page 8

FORM 10-Q

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

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

	Six Months Ended	
	June 30,	
	2001	2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 72,842	\$ 72,222
Adjustments		
Depreciation and amortization	89,429	80,413
Provision for deferred income taxes	6,255	10,637
Provision for losses on accounts receivable	4,555	4,174
Allowance for other funds used during construction	(2,266)	(4,506)
Employee benefit expenses greater (less) than funding	(280)	8,615
Employee stock plan expenses	2,192	(47)
Deferred business services project expenses	(19,584)	-
Deferred tank painting costs	(1,854)	(945)
Deferred rate case expense	(1,240)	(904)
Amortization of deferred charges	7,344	6,358
Other, net	(1,371)	(6,955)
Changes in assets and liabilities, net		
Accounts receivable	(12,889)	(17,859)
Unbilled revenues	(15,337)	(14,989)
Other current assets	(2,935)	(7,120)
Accounts payable	(14,712)	(29,240)
Taxes accrued, including federal income	27,433	19,485
Interest accrued	(134)	(886)
Other current liabilities	(8,437)	(22,505)
	-----	-----
Net cash from operating activities	129,011	95,948
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(153,488)	(161,306)
Allowance for other funds used during construction	2,266	4,506
Acquisitions	(54,173)	(48,951)
Proceeds from the disposition of property, plant and equipment	711	1,758
Removal costs from property, plant and equipment retirements	(5,090)	(2,905)
Restricted funds	(247)	11,720
	-----	-----
Net cash used in investing activities	(210,021)	(195,178)
	-----	-----

Edgar Filing: AMERICAN WATER WORKS CO INC - Form 10-Q

Page 9

FORM 10-Q

Six Months Ended

	June 30,	
	2001	2000
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	\$146,765	\$ 43,706
Proceeds from common stock	21,109	18,291
Purchase of common stock for treasury	(386)	(4,616)
Net borrowings under line-of-credit agreements	6,172	92,322
Advances and contributions for construction, net of refunds	12,936	15,477
Debt issuance costs	(1,114)	(1,760)
Repayment of long-term debt	(66,530)	(17,702)
Redemption of preferred stocks	(1,940)	(550)
Dividends paid	(46,801)	(45,890)
	-----	-----
Net cash from financing activities	70,211	99,278
	-----	-----
Net increase (decrease) in cash and cash equivalents	(10,799)	48
Cash and cash equivalents at January 1	28,571	43,100
	-----	-----
Cash and cash equivalents at June 30	\$17,772	\$ 43,148
	=====	=====
Cash paid during the period for:		
Interest, net of capitalized amount	\$ 98,521	\$ 97,392
	=====	=====
Income taxes	\$ 27,154	\$ 21,814
	=====	=====

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

Common stock placed into treasury in connection with the Employees Stock Ownership Plan, the Savings Plan for Employees and 2000 Stock Award and Incentive Plan totaled \$1,774 in 2001 and \$4,871 in 2000.

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

Edgar Filing: AMERICAN WATER WORKS CO INC - Form 10-Q

Page 10

FORM 10-Q

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

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

	June 30 2001	December 31 2000
	-----	-----
Preferred stocks without mandatory redemption requirements		
Cumulative preferred stock - \$25 par value		
5% series (one-tenth of a vote per share)		
- 101,777 shares outstanding	\$ 2,544	\$ 2,544
Cumulative preference stock - \$25 par value		
Authorized - 750,000 shares		
5% series (non-voting) - 365,158 shares		
outstanding	9,129	9,129
Cumulative preferential stock - \$35 par value		
Authorized - 3,000,000 shares		
(one-tenth of a vote per share)-		
no outstanding shares	--	--
	-----	-----
	\$ 11,673	\$ 11,673
	=====	=====
Common stockholders' equity		
Common stock - \$1.25 par value		
Authorized - 300,000,000 shares		
Issued - 99,574,353 shares in 2001;		
98,819,845 shares in 2000	\$ 124,468	\$ 123,525
Paid-in capital	475,523	454,568
Retained earnings	1,096,271	1,069,486
Accumulated other comprehensive income	18,794	25,303
Unearned compensation	(778)	(359)
Treasury stock at cost - 92,243 shares in		
2001; 129,216 shares in 2000		(2,492) (2,846)
	-----	-----
	\$1,711,786	\$ 1,669,677
	=====	=====

At June 30, 2001, common shares reserved for issuance in connection with the Company's stock plans were 80,865,863 shares for the Stockholder Rights Plan, 2,063,772 shares for the Dividend Reinvestment and Stock Purchase Plan, 565,493 shares for the Employees' Stock Ownership Plan and 532,381 shares for the Savings Plan for Employees. Up to 4,254,367 shares of common stock may be issued under the 2000 Stock Award and Incentive Plan, of which approximately 3,300,000 shares were available to be granted at June 30, 2001.

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 -- Financial Statement Presentation

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

NOTE 2 -- Acquisitions

CITY OF COATESVILLE PENNSYLVANIA WATER AND WASTEWATER SYSTEMS

On March 22, 2001 the Company's subsidiary in Pennsylvania completed the purchase of the City of Coatesville Authority's water and wastewater utility systems for \$48.225 million. These systems provide water service to 8,600 customers and wastewater service to 6,500 customers.

Note 3 -- Pending Acquisitions

WATER AND WASTEWATER ASSETS OF CITIZENS COMMUNICATIONS

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

Regulatory agencies in Pennsylvania, Indiana, Illinois, Ohio, and Arizona have approved the acquisition of Citizen's water and wastewater assets in those states and on August 7, 2001 an Administrative Law Judge issued a proposed order approving the acquisition in California. A decision from the California Public Utilities Commission is anticipated during the third quarter of 2001.

AZURIX NORTH AMERICA AND AZURIX INDUSTRIALS

On August 2, 2001 the Company entered into an agreement to acquire Azurix North America Corp. and Azurix Industrials Corp. for approximately \$150 million in cash and debt. Closing is expected to occur during the fourth quarter of 2001.

Azurix North America and Azurix Industrials are wholly-owned subsidiaries of Azurix Corp. and provide a range of water and wastewater services, including operations and maintenance, engineering, carbon regeneration, underground infrastructure rehabilitation and residuals management.

Azurix North America and Azurix Industrials, which had revenues totaling approximately \$160 million in 2000, have approximately 1,050 employees and operate facilities serving an end-user population of approximately 2 million people across North America.

NOTE 4 -- New Accounting Standards

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. The statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS

Edgar Filing: AMERICAN WATER WORKS CO INC - Form 10-Q

133 was issued by the Financial Accounting Standards Board in June of 1998 and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

Page 12

FORM 10-Q

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

On July 20, 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but not to exceed 40 years). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

Also on June 30, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 143 will have on its results of operations and financial position.

PART I - FINANCIAL INFORMATION

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

Results of Operations

Operating revenues for the second quarter and the first six months of 2001 were higher than for the same periods of 2000 by 5% and 4%, respectively. Increased revenues were the result of increased water sales to 44,000 new customers added since June 30, 2000 and authorized increases in charges for water service.

Water sales volume during the second quarter of 2001 increased 1% to 83.3 billion gallons from 82.5 billion gallons in the second quarter of 2000. The 158.7 billion gallons of sales volume for the first six months of 2001 was slightly greater than the 158.5 billion gallons sold in the same period of 2000.

During 2001, eight utility subsidiaries have received rate orders which are expected to provide approximately \$16.9 million in additional annual revenues. Five subsidiaries have rate increase applications on file before regulatory agencies which, if granted in full, would provide approximately \$57 million in additional annual revenues. The largest portion of this total is from two separate requests filed by Pennsylvania-American and West Virginia-American at \$39 million and \$12 million, respectively.

A decision in the West Virginia case is expected in the fourth quarter of this year. The Pennsylvania case should be decided in the first quarter of 2002.

Operating expenses in the second quarter and the first six months of 2001 were 5% higher compared to the same periods in 2000. Operation and maintenance expenses increased by 4% in the second quarter and the first six months when compared to the same periods in 2000. A portion of the expense increase was associated with customer growth. The increases in depreciation expense for the quarter and first six months were related to the Company's ongoing program of utility plant construction.

Interest expense rose by 2% in the second quarter and 3% in the first six months of 2001 compared to the same periods in 2000, due to an increase in total debt to fund construction of new water service assets. The total allowance for funds used (equity and borrowed) during construction ("AFUDC") recorded in the second quarter of 2001 was \$2.3 million, compared to \$3.2 million in the second quarter of 2000. AFUDC for the first six months of 2001 was \$4.3 million compared to \$7.8 million for the same period in 2000. The utility subsidiaries record AFUDC to the extent permitted by the regulatory authorities. During the second quarter of 2001 the Company sold a portion of its telecommunication company investments and realized a pre-tax gain of \$3.4 million in other income.

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

Net income to common stock was \$49.2 million for the second quarter of 2001 compared with \$44.1 million for the same period in 2000. Net income to common stock for the first six months of 2001 was \$72.6 million compared with \$70.2 million for the first six months of 2000.

Other comprehensive loss was \$4.5 million and \$6.5 million in the second quarter and first six months of 2001, respectively, compared to other comprehensive loss of \$31.0 million and \$23.2 million in the same periods in 2000. The Company's other comprehensive income or loss represents the unrealized gain or loss on passive investments in publicly traded securities.

Capital Resources and Liquidity

During the first six months of 2001, 732,324 shares of common stock were issued in connection with the Dividend Reinvestment and Stock Purchase Plan, and 22,184 shares were issued for non-qualified stock options that were exercised. Also, 159,692 non-qualified stock options were granted in connection with the 2000 Stock Award and Incentive Plan during the first six months of 2001.

The Company issued 96,136 shares of common stock out of treasury during the first six months of 2001 in connection with the Employees' Stock Ownership Plan, the Savings Plan for Employees and the 2000 Stock Award and Incentive Plan.

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

The Company and its subsidiaries plan to fund construction programs, continue acquisitions, and repay short-term debt and maturing bonds with cash from operations and from the issuance of approximately \$100 million of long-term debt during the remainder of 2001. In addition, during 2001 the Company plans to arrange financing of approximately \$1 billion to fund the acquisition of the Citizens Communications water and wastewater assets, and the acquisition of Azurix North America and Azurix Industrials. Management intends to fund these transactions permanently through a combination of long-term debt and equity or hybrid equity securities. Excluding any short-term debt incurred in connection with the pending transactions, the combined amount of short-term debt and bonds maturing within one year is expected to decline to approximately \$420 million in 2001.

New Accounting Standards

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

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

On July 20, 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but not to exceed 40 years). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

Also on June 30, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 143 will have on its results of operations and financial position.

Forward Looking Information

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

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

B. Reports on Form 8-K

No report on Form 8-K was filed by the registrant during the quarter ended June 30, 2001.

SIGNATURES

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

AMERICAN WATER WORKS COMPANY, INC.

Date August 14, 2001

\s\Ellen C. Wolf

Vice President and Chief Financial Officer
(Authorized Officer)

Date August 14, 2001

\s\Robert D. Sievers

Comptroller
(Chief Accounting Officer)