

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Sheila Miller**

1. Refer to the Company's response to Staff data request PSC-1, where the Company provided Workpapers WP 3-1 through WP 3-15 for O&M expenses and WP -1 through WP-9 for other components of KAW's filing. To the extent that any of such workpapers or supporting calculations were prepared using Excel, or an electronic spreadsheet similar to Excel, (and not already provided in response to AG-1-1) please provide such workpapers electronically in Excel.

**Response:**

The excel files were provided in response to KAW\_R\_AGDR1#1\_042610.

For the electronic version of this response, refer to KAW\_R\_AGDR2#1\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller/Nick Rowe**

2. Refer to the Company's response to AG-1-15.
  - a. Please confirm there is no LTIP expense in any of these periods for KAW employees:
    - 1) 2009;
    - 2) 2010; and
    - 3) Future test year.
  - b. If there is any LTIP in any of the periods identified in response to part a, please identify the amount and account.

**Response:**

- a. The AG is correct that neither the original nor supplemental response to AG-1-15 indicates LTIP expense for KAW employees for the periods referenced in this question because the LTIP Plan has been replaced by the Equity Compensation Plan. A copy of that Plan was attached to the original response to AG-1-15. The AG inquired in AG-1-47 about stock based compensation.
- b. The Company provided in its response to AG-1-47 the level of Equity Compensation for KAW employees for the test-year and forecasted test-year in this case. The amount of Equity Compensation for KAW employees for 2010 is expected to be \$25,848. The forecasted test-year level of \$27,228 was previously supplied in response to KAW\_AGDR1#1\_042610, file name Rate Case Labor and AIP 12-29-09.xls, under the incentive tab.

For the electronic version of this response, refer to KAW\_R\_AGDR2#2\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller/Nick Rowe**

3. Refer to the Company's response to AG-1-15.
- a. Please confirm there is no LTIP expense in any of these periods for AWWSC employees whose cost is allocated or charged to KAW:
- 1) 2009;
  - 2) 2010; and
  - 3) Future test year.
- b. If there is any LTIP in any of the periods identified in response to part a, please identify the amount and account.

**Response:**

- a. The AG is correct that there is no LTIP expense for the periods referenced in this question because the LTIP Plan has been replaced by the Equity Compensation Plan.
- b. The LTIP plan has been replaced by the Equity Compensation Plan. A copy of that Plan was attached to the original response to AG-1-15. The AG inquired in AG-1-47 about stock based compensation. The Company provided in its response to AG-1-47 the level of Equity Compensation for AWWSC employees for the test-year and forecasted test-year in this case. In the supplemental response to AG-1-47 the Company amended the level of Equity Compensation for AWWSC employees included in the forecasted test-year, by reference to KAW\_R\_PSCDR2#8\_043010. The level of Equity Compensation for AWWSC employees for the periods addressed in this question are:
- 1) 2009 - \$126,105
  - 2) 2010 - \$266,488
  - 3) Forecasted Test-Year - \$179,208 (See response to PSC-2-8)

For the electronic version of this response, refer to KAW\_R\_AGDR2#3\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller/Nick Rowe**

4. Refer to the Company's response to AG-1-15, pages 9-10 of 39. Also refer to KAW's supplemental response to AG-1-15.
  - a. Is KAW now requesting \$436,987 for forecasted AIP awards? If not, explain fully why not and identify the amount that KAW is requesting.
  - b. Please provide the same level of detail for the \$436,987 that was provided for the original amount of \$349,529.
  - c. Please identify the specific TARGET amounts of each of the following AIP award determinants related to the Corporate Multiplier for each period, (2008, 2009, 2010, base period, and future test year)
    - 1) Diluted Earnings Per Share (EPS),
    - 2) Operating Cash Flow (GAAP),
    - 3) Revenue Growth,
    - 4) Safety,
    - 5) Environment,
    - 6) Customer Satisfaction,
    - 7) Business Transformation, and
    - 8) Diversity.
  - d. Please identify the specific ACTUALLY ACHIEVED amounts of each of the following AIP award determinants related to the Corporate Multiplier for each period, (2008, 2009, 2010, base period, and future test year)
    - 1) Diluted Earnings Per Share (EPS),
    - 2) Operating Cash Flow (GAAP),
    - 3) Revenue Growth,

- 4) Safety,
  - 5) Environment,
  - 6) Customer Satisfaction,
  - 7) Business Transformation, and
  - 8) Diversity.
- e. Please provide the documents and supporting calculations for specific ACTUALLY ACHIEVED amounts of each of the following AIP award determinants related to the Corporate Multiplier for each period, (2008, 2009, 2010, base period, and future test year)
- 1) Diluted Earnings Per Share (EPS),
  - 2) Operating Cash Flow (GAAP), and
  - 3) Revenue Growth.

**Response:**

- a. The \$436,987 referred to in the question applies to the AIP level included in the forecasted test-year relative to the employees of AWWSC. The Company clarified this in response to PSCDR-2-#9, as indicated in the supplemental response to AG-1-15.
- b. To avoid any confusion the \$436,987 applies to forecasted test-year AIP for AWWSC employees and the \$349,529 applies to forecasted test-year AIP for KAW employees. Please refer to the response to KAW\_R\_PSCDR2#9\_043010 which provides the break-down of the \$436,987 by AWWSC employee.
- c. TARGET amounts of each of the following AIP award determinants related to the Corporate Multiplier for each period, (2008, 2009, 2010, base period, and future test year).

1)	Diluted Earnings Per Share (EPS)	2008	2009	2010
		N/A	\$1.21	N/F (Not
	(see also part d)			Final)
2)	Operating Cash Flow (GAAP),	\$613.3m	\$596.1m	N/A
3)	Revenue Growth,	N/A	\$306.2m	N/F
	(see also part d.)			

4)	Safety,	6.75	5.5	N/F
5)	Environment,	21	29	N/F
6)	Customer Satisfaction,	70%	90%	N/F
7)	Business Transformation,	N/A	100%	N/F

(see also part d)

8)	Diversity.	N/A	1. 100%	N/F
		(see also part d)	2. 25%	
			3. 50% (see also d9)	

d. For 2009 the actual results used to determine the Corporate Multiplier to set the pool for all participants were as follows:

- 1) Diluted Earnings Per Share (EPS) - \$1.20.
- 2) Operating Cash Flow (GAAP) - \$596.2 million.
- 3) Revenue Growth - \$103.8 million.
- 4) Safety - 4.3 injuries and illnesses requiring treatment beyond first aid for every 200,000 hours worked OSHA Recordable Incident Rate (ORIR).
- 5) Environment - 18 Notices of Violations (NOVs).
- 6) Customer Satisfaction – 89% overall customer satisfaction through an annual survey containing the following question, “Overall, how satisfied have you been with (Company Name) in general during the past twelve months”, which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied). Response percentages in the top three categories are indicative of overall customer satisfaction levels.
- 7) Service Quality Satisfaction – 87% satisfaction on Service Quality Survey (SQS) which is conducted throughout the year for customers having had recent contact with an AW Customer Service Representative (CSR), Field Service Representative (FSR) or the web self service system. The score is based on survey question: “Overall, how satisfied were you with the outcome of your service contact?” taking the top two response categories (extremely satisfied or very satisfied) of a 5 point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied).

- 8) Business Transformation – 100%. Approval and sign-off by each process area's Advisory Council. Each Council includes at least two state presidents, process owners, and significant internal customers. Also, approval and sign-off are required by Business Transformation Steering Committee that includes the President of AW Regulated Operations, the President of AW Services Company, the SVP & Chief Financial Officer, and the SVP Human Resources.
- 9) Diversity. 1. - 100% of all ML-4 and above completed diversity awareness training. 2. - 25% of selection pool for L-5 positions were diversity candidates. 3. - 65% of strategic sourcing events included a pre-qualified diverse supplier/contractor.

For 2008 the plan design was different than for 2009. There was no Corporate Multiplier for 2008. The actual results for 2008 were as follows:

- 1) Operating Income Achieved – American Water consolidated \$596.1 million, Kentucky-American \$20.6 million.
- 2) Safety, 5.11 injuries and illnesses requiring treatment beyond first aid for every 200,000 hours worked OSHA Recordable Incident Rate (ORIR) for American Water consolidated, 4.17 for Kentucky-American.
- 3) Environment – 29 Notices of Violations (NOVs) for American Water consolidated, 8 for Eastern Division was used for Kentucky-American.
- 4) Customer Satisfaction – 60% overall customer satisfaction through an annual survey containing the following question, “Overall, how satisfied have you been with (Company Name) in general during the past twelve months”, which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied). Response percentages in the top two categories are indicative of overall customer satisfaction levels for American Water consolidated, 59% for Kentucky-American.
- 5) Service Quality Satisfaction – 85% satisfaction on Service Quality Survey (SQS) which is conducted throughout the year for customers having had recent contact with an AW Customer Service Representative (CSR), Field Service Representative (FSR) or the web self service system. The score is based on survey question: “Overall, how satisfied were you with the outcome of your service contact?” taking the top two response categories (extremely satisfied or very satisfied) of a 5 point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied) for American Water consolidated, 83% for Kentucky-American.

2010 actual achieved results will not be available until the plan year has concluded, and results are not tabulated for the base period or future test year.

- e. For 2009 the actual results were determined as follows:
- i. Diluted Earnings Per Share (EPS) - \$1.20 was determined by taking the (\$1.39) reported in American Water's Form 10-K plus adjustments of \$2.64 for impairment charges and (\$.05) for increased pension and OPEB costs in 2009 attributable to lower than expected asset returns in 2008 that were recovered in rates.
  - ii. Operating Cash Flow (GAAP) - \$596.2 million reported in American Water's Form 10-K.
  - iii. Revenue Growth. \$103.8 million difference between the \$2,440.7 million for 2009 and \$2,336.9 million for 2008 reported in American Water's Form 10-K.

For 2008 the actual results were determined as follows:

- i. Consolidated Operating Income – \$596.1 million was determined by taking the (\$186.9) million reported in American Water's Form 10-K plus adjustments of \$750 million for impairment charges, \$30.0 million of one-time costs related to the public offering and \$3.0 million of overtime payments under the Fair Labor Standards Act (FLSA).
- ii. Kentucky-American's Operating Income – \$20.64 million was determined by taking \$19.842 million plus adjustments of \$510,000 of one-time costs related to the public offering, (\$81,000) retrospective insurance premium, \$25,000 pension and OPEB expenses, \$80,000 thousand long-term incentive plan and \$268,000 of overtime payments under the Fair Labor Standards Act (FLSA).

2010 actual achieved results will not be available until the plan year has concluded, and results are not tabulated for the base period or future test year.

For the electronic version of this response, refer to KAW\_R\_AGDR2#4\_052410.pdf.



**KENTUCKY-AMERICAN WATER COMPANY**  
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**Witness: Michael A. Miller/Nick Rowe**

5. Refer to the Company's response to AG-1-15, page 11 of 39.
- a. Please identify, quantify and explain any and all “uncontrollable events” that affected the Corporate Multiplier of the AIP for each period, (2008, 2009, 2010, base period, and future test year).
  - b. For each period, please show the amount of Corporate Multiplier and AIP award both (1) with taking into account the “uncontrollable events” and (2) without taking into account the “uncontrollable events.”

**Response:**

- a. There was one “uncontrollable event” that affected the Corporate Multiplier of the AIP for 2009, the adjustment for the impairment charge that increased EPS by \$2.64. The final EPS result was also decreased by (\$.05) for increased pension and OPEB costs in 2009 attributable to lower than expected asset returns in 2008 that were recovered in rates during 2009.

The “uncontrollable events” that affected the Corporate Multiplier of the AIP for 2008 were increases of \$750 million for impairment charges, \$30.0 million of costs related to the public offering and \$3.0 million of overtime payments under the Fair Labor Standards Act (FLSA).

2010 actual achieved results will not be available until the plan year has concluded, and results are not tabulated for the base period or future test year.

- b. Taking into account the “uncontrollable events” the Corporate Multiplier for 2009 was 93.21% and AIP award was \$22.8 million. Without taking into account the “uncontrollable events” the Corporate Multiplier for 2009 and the AIP award would have been zero.

Taking into account the “uncontrollable events” for 2008 the financial payout ratio (there was no Corporate Multiplier for 2008) was 81% for American Water consolidated. The AIP awards for 2008 were \$19.4 million for American Water consolidated. Without taking into account the “uncontrollable events” the financial payout ratio for 2009 and the AIP award would have been zero for American Water consolidated.

For the electronic version, refer to KAW\_R\_AGDR2#5\_052410.pdf.

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**Witness: Michael A. Miller/Nick Rowe**

6. Refer to the Company's response to AG-1-15, page 14 of 39.
  - a. Show in detail how each of the listed Company "Financial Performance Factor" amounts (1.39, 0.94, 0.50 and 0.00) were derived.
  - b. Show in detail how each of the listed Company "Non-Financial Performance Factor" amounts (0.77, 1.12, 0.50 and 0.00) were derived.
  - c. Are each of the "Company" Financial Performance Factors based on the parent company American Water Works? If not, explain fully why not, and show in detail how subsidiary company results are considered.

**Response:**

- a. These were simply amounts that were chosen to illustrate how the Corporate Multiplier Calculation works.
- b. These were simply amounts that were chosen to illustrate how the Corporate Multiplier Calculation works.
- c. Each of the "Company" Financial Performance Factors are based on the consolidated financial reporting for parent company American Water Works.

For the electronic version, refer to KAW\_R\_AGDR2#6\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
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**Witness: Michael A. Miller/Nick Rowe**

7. Refer to the Company's response to AG-1-15. Pages 4-23 of 39 are the American Water 2009 Annual Incentive Plan Highlights Brochure.
  - a. Is there a more detailed document available? If not, explain fully why not. If so, provide it.
  - b. That document is dated February 2009. Is there a more recent document available? If not, explain fully why not. If so, provide it.

**Response:**

- a. No. Please see responses to AG-2-4 and AG-2-5.
- b. No. The 2010 plan document is not final.

For the electronic version, refer to KAW\_R\_AGDR2#7\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller/Sheila Miller**

8. Refer to the Company's response to AG-1-15, page 2 of 39.
- a. Please show in detail how the "Future Test Year AIP" amounts for each of the filled positions was developed.
  - b. Please show in detail how the "Future Test Year AIP" amounts for each of the vacant positions was developed.
  - c. For each position with no amount in the "Future Test Year AIP" please explain fully and in detail why no AIP for the future test year for such position is projected.
  - d. What does (N) indicate in the "Job Title" column?

**Response:**

- a. The future test year AIP was calculated by multiplying the base salary by the targeted AIP percentage rate for each job position. See the calculation included in the excel file provided in response to KAW\_R\_AGDR1#1\_042610, file labeled as Rate Case Labor and AIP 12-29-09.xls, tab Incentive.
- b. The future test year AIP for the vacant positions was calculated in the same manner as part a. above.
- c. The positions with no amount in the future test year for AIP are not eligible for AIP.
- d. The (N) designates non-exempt positions (paid overtime).

For the electronic version of this response, refer to KAW\_R\_AGDR2#8\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Sheila Miller**

9. Please identify in detail all payroll expense, benefits expense, AIP expense, and payroll tax expense KAW has included in the future test year for vacant positions. Please show all amounts by account and also for each vacant position.

**Response:**

Please refer to the information provided in response to KAW\_R\_AGDR1#37\_042610 and KAW\_R\_PSCDR2#3b(4)\_043010.

For the electronic version of this response, refer to KAW\_R\_AGDR2#9\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

10. Refer to the Company's response to AG-1-15, pages 24-29 of 39. Please identify all amounts of expense in each period (2008, 2009, 2010, base period, and future test year) related to the American Water Works Company, Inc., 2007 Omnibus Equity Compensation Plan. Provide the amount of such expense recorded in each account for each period.

**Response:**

Please see the response to KAW\_R\_AGDR2#3 for the information for 2009, 2010, and the forecasted test-year. The amount for 2008 is \$41,522. The amount for the base period is \$187,499 as previously supplied in response to KAW\_R\_AGDR1#47.

For the electronic version of this response, refer to KAW\_R\_AGDR2#10\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Sheila Miller**

11. CIAC. Refer to the Company's response to AG-1-18.
- a. Does the Company maintain an amortization schedule for CIAC? If not, explain fully why not. If so, please provide it in Excel, showing in detail the full amortizations that produced each of the following amounts:
    - 1) \$146,561 for December 2007,
    - 2) \$111,722 for December 2008,
    - 3) \$116,239 for December 2009, and
    - 4) \$117,900 for March 2010.
  - b. Explain fully the negative CIAC amortization in March 2008 and provide the related journal entries, journal entry workpapers and journal entry descriptions.

**Response:**

- a. CIAC amortization is calculated monthly as follows:

CIAC Balance a/c 271 x (Annual depr. Rate/12) = Amortization

- 1) See excel file: KAW\_R\_AGDR2#11\_052410.xls, Tab-Dec 2007
- 2) See excel file: KAW\_R\_AGDR2#11\_052410.xls, Tab-Dec 2008
- 3) See excel file: KAW\_R\_AGDR2#11\_052410.xls, Tab-Dec 2009
- 4) See excel file: KAW\_R\_AGDR2#11\_052410.xls, Tab-Mar 2010

- b. The credit amortization in the amount of (\$269,308) is a result of CIAC Amortization of \$104,689 recorded in March 2008 offset by the reversal of prior period CIAC and CAC amortization of (\$373,997). The March adjustment included a reversal of amortization on Customer Advances for Construction (CAC) and a revision of amortization rates for the CIAC amortization used between December 2007 and February 2008.

The amortization of CAC in the amount of (\$298,373) was reversed in March 2008. The amortization of CAC was recorded during the period of November 2007 thru February 2008 in error.

Reversal of prior period amortization in the amount of (\$75,624) was recorded in March 2008. Amortization recorded between December 2007 and February 2008 was adjusted due to new depreciation rates effective in December 2007 as approved by the Kentucky commission.

See the attached journal entries and workpapers.

The March 2008 CIAC Amortization is detailed on the excel file labeled as KAW\_R\_AGDR2#11\_052410.xls, Tab-Mar 2008.

For the electronic version of this response, refer to KAW\_R\_AGDR2#11\_052410.pdf.





American Water

131 Woodcrest Rd, Cherry Hill, NJ 08003 (856) 777-8426

JOURNAL ENTRY REQUEST

Batch # (SSC USE): 4136564
Company: 12 - Kentucky American
Prepared By (Operating Unit): SULLIVAN KELLEY
Prepared By (SSC)/Date:

Journal # (SSC USE): 30830418
Accounting Period: March 2008
Requested By (Operating Unit):
Approved By (SSC)/Date:

Please add rows as necessary to the table below in order to complete your requested journal entry:

Check box for reversing entry

Empty checkbox

SHORT JOURNAL ENTRY DESCRIPTION:

CIAC ADJUSTMENT FOR 2007 30 Character Maximum

JOURNAL ENTRY DESCRIPTION:

UPA REMOVE 2007 AMORTIZATION CALCULATE FROM ADVANCE 252000 ACCOUNT BALANCE. IT HAS BEEN DETERMINED THAT AMORTIZATION FROM ADVANCE ACT SHOULDN'T BE USED. FOLLOWING JE'S WERE INVOLVED WITH THE ORIGINAL ADJUSTMENT JE 30820137 3082110 30824501
Check box and attach additional description, if additional space is needed

DISTRIBUTION:

0.00 269,908.55 269,908.55

Table with columns: Busine ss Unit, Object Account, Subsidiar y Code, Subledger Code, SL Type, Explanation, Debit Amount, Credit Amount. Includes rows for REMOVE 2007 ADV ACT AMORTIZATION with various account codes.

Totals

269,908.55 269,908.55

Please indicate the following:

Utility Subsidiary: 12 - Kentucky American
Submitted by: SULLIVAN KELLEY
Submission Date: May 13, 2010
Phone Number: 856 310 5847

Reverse CAC Amortization
November 2007.





American Water

131 Woodcrest Rd, Cherry Hill, NJ 08003 (866) 777-8426

**JOURNAL ENTRY REQUEST**

Batch # (SSC USE): 4136389 Journal # (SSC USE): 30830405  
 Company: 12 - Kentucky American Accounting Period: March 2008  
 Prepared By (Operating Unit): SULLIVAN KELLEY Requested By (Operating Unit): \_\_\_\_\_  
 Prepared By (SSC)/Date: \_\_\_\_\_ Approved By (SSC)/Date: \_\_\_\_\_

Please add rows as necessary to the table below in order to complete your requested journal entry.

Check box for reversing entry

**SHORT JOURNAL ENTRY DESCRIPTION:**

CIAC ADJUSTMENT FOR FEB 08 30 Character Maximum

**JOURNAL ENTRY DESCRIPTION:**

UPA REMOVE FEB 08 ADVANCE ACCOUNT AMORTIZATION. IT WAS DETERMINED THAT THERE SHOULDN'T BE ANY AMORTIZATION CALCULATED ON ANY THE ADVANCE (252000) ACCOUNT. THIS ENTRY REVERSES FEB 08 AMORTIZATION AGAINST 252000 ACCOUNTS

Check box and attach additional description, if additional space is needed

**DISTRIBUTION:**

Business Unit	Object Account	Subsidiary Code	Subledger Code	SL Type	Explanation	Debit Amount	Credit Amount
						0.00	14,513.83
120105	272060				ADVANCE AMORTIZATION	10.29	
120205	272060				ADVANCE AMORTIZATION		14,455.93
123005	272060				ADVANCE AMORTIZATION		0.54
123205	272060				ADVANCE AMORTIZATION		46.33
120105	680125				ADVANCE AMORTIZATION		10.29
120205	680125				ADVANCE AMORTIZATION	14,455.93	
123005	680125				ADVANCE AMORTIZATION	0.54	
123205	680125				ADVANCE AMORTIZATION	46.33	
120205	272100				ADVANCE AMORTIZATION		0.75
120205	680120				ADVANCE AMORTIZATION	0.75	
<b>Totals</b>						<b>14,513.83</b>	<b>14,513.83</b>

Please indicate the following:

Utility Subsidiary:	12 - Kentucky American
Submitted by:	SULLIVAN KELLEY
Submission Date:	May 13, 2010
Phone Number:	856 310 5847

Reverse CAc - Feb 2008



American Water

131 Woodcrest Rd, Cherry Hill, NJ 08003 (866) 777-8426

**JOURNAL ENTRY REQUEST**

Batch # (SSC USE):	<u>4136350</u>	Journal # (SSC USE):	<u>30830400</u>
Company:	<u>12 - Kentucky American</u>	Accounting Period:	<u>March 2008</u>
Prepared By (Operating Unit):	<u>SULLIVAN KELLEY</u>	Requested By (Operating Unit):	<u></u>
Prepared By (SSC)/Date:	<u></u>	Approved By (SSC)/Date:	<u></u>

Please add rows as necessary to the table below in order to complete your requested journal entry.

Check box for reversing entry

**SHORT JOURNAL ENTRY DESCRIPTION:**

CIAC ADJUSTMENT FOR JAN 08	30 Character Maximum
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**JOURNAL ENTRY DESCRIPTION:**

UPA ADJUST JAN 08 AMORTIZATION ON CONTRIBUTION ACCOUNT DUE TO THE USE OF THE WRONG RATES. NEW RATES WERE ESTABLISHED IN DEC 07. AN ANALYSIS SHOWED THAT AMORTIZATION IN JAN 08 SHOULD BE REDUCED BY 33,701. THE % RATE FOR BU 123305 CHANGE TO 2% WHICH RESULTED IN A 425.32 INCREASE IN AMORTIZATION

Check box and attach additional description, if additional space is needed

**DISTRIBUTION:**

Business Unit	Object Account	Subsidiary Code	Subledger Code	SL Type	Explanation	Debit Amount	Credit Amount
						0.00	35,051.87
						35,051.87	
120205	272060				REDUCE CONTRIBUTION AMORTIZATION		12,873.91
123005	272060				REDUCE CONTRIBUTION AMORTIZATION	777.71	
123205	272060				REDUCE CONTRIBUTION AMORTIZATION		6,275.07
123305	272060				REDUCE CONTRIBUTION AMORTIZATION		7,901.18
120105	680125				REDUCE CONTRIBUTION AMORTIZATION	12,873.91	
120205	680125				REDUCE CONTRIBUTION AMORTIZATION		777.71
123005	680125				REDUCE CONTRIBUTION AMORTIZATION	6,275.07	
123205	680125				REDUCE CONTRIBUTION AMORTIZATION	7,901.18	
120205	272100				REDUCE CONTRIBUTION AMORTIZATION		7,223.37
123005	272100				REDUCE CONTRIBUTION AMORTIZATION		0.63
120205	680120				REDUCE CONTRIBUTION AMORTIZATION	7,223.37	
123005	680120				REDUCE CONTRIBUTION AMORTIZATION	0.63	
<b>Totals</b>						<b>35,051.87</b>	<b>35,051.87</b>

*Westwater*

Please indicate the following:

Utility Subsidiary:	12 - Kentucky American
Submitted by:	SULLIVAN KELLEY
Submission Date:	May 13, 2010
Phone Number:	856 310 5847



American Water

131 Woodcrest Rd, Cherry Hill, NJ 08003 (866) 777-8426

**JOURNAL ENTRY REQUEST**

Batch # (SSC USE): 4136427 Journal # (SSC USE): 30830408  
 Company: 12 - Kentucky American Accounting Period: March 2008  
 Prepared By (Operating Unit): SULLIVAN KELLEY Requested By (Operating Unit): \_\_\_\_\_  
 Prepared By (SSC)/Date: \_\_\_\_\_ Approved By (SSC)/Date: \_\_\_\_\_

Please add rows as necessary to the table below in order to complete your requested journal entry.

Check box for reversing entry

**SHORT JOURNAL ENTRY DESCRIPTION:**

CIAC ADJUSTMENT FOR FEB 08 30 Character Maximum

**JOURNAL ENTRY DESCRIPTION:**

UPA ADJUST FEB 08 AMORTIZATION ON CONTRIBUTION ACCOUNT DUE TO THE USE OF THE WRONG RATES. NEW RATES WERE ESTABLISHED IN DEC 07. AN ANALYSIS SHOWED THAT AMORTIZATION IN JAN 08 SHOULD BE REDUCED BY 33,276. 2% WAS USED FOR BU 123305 CALCULATIONS WHICH INCREASE THE ADJUSTMENT BY 425.32

Check box and attach additional description, if additional space is needed

**DISTRIBUTION:**

Business Unit	Object Account	Subsidiary Code	Subledger Code	SL Type	Explanation	Debit Amount	Credit Amount
						0.00	35,233.69
						35,233.69	
120105	272060				ADJ CONTRIBTION CIAC		13,060.11
123005	272060				ADJ CONTRIBTION CIAC	765.72	
123205	272060				ADJ CONTRIBTION CIAC		6,275.07
123305	272060				ADJ CONTRIBTION CIAC		7,901.18
120105	680125				ADJ CONTRIBTION CIAC	13,060.11	
123005	680125				ADJ CONTRIBTION CIAC		765.72
123205	680125				ADJ CONTRIBTION CIAC	6,275.07	
123305	680125				ADJ CONTRIBTION CIAC	7,901.18	
120205	272100				ADJ CONTRIBTION CIAC		7,230.97
123005	272100				ADJ CONTRIBTION CIAC		0.63
120205	680120				ADJ CONTRIBTION CIAC	7,230.97	
123005	680120				ADJ CONTRIBTION CIAC	0.63	
<b>Totals</b>						<b>35,233.69</b>	<b>35,233.69</b>

*Waste water*

Please indicate the following:

Utility Subsidiary:	12 - Kentucky American
Submitted by:	SULLIVAN KELLEY
Submission Date:	May 13, 2010
Phone Number:	856 310 5847



American Water

131 Woodcrest Rd, Cherry Hill, NJ 08003 (866) 777-8426

**JOURNAL ENTRY REQUEST**

Batch # (SSC USE): 4136700 Journal # (SSC USE): 30830440  
 Company: 12 - Kentucky American Accounting Period: March 2008  
 Prepared By (Operating Unit): SULLIVAN KELLEY Requested By (Operating Unit): \_\_\_\_\_  
 Prepared By (SSC)/Date: \_\_\_\_\_ Approved By (SSC)/Date: \_\_\_\_\_

Please add rows as necessary to the table below in order to complete your requested journal entry.

Check box for reversing entry

**SHORT JOURNAL ENTRY DESCRIPTION:**

CIAC ADJUSTMENT FOR DEC 07 30 Character Maximum

**JOURNAL ENTRY DESCRIPTION:**

CIAC AMORTIZATION ADJUSTMENT FOR DEC 07. Used new rates. BU 123305 RATE IS 2% AND THAT INCREASES THE AMORTIZATION BY 425.32

Check box and attach additional description, if additional space is needed

**DISTRIBUTION:**

Business Unit	Object Account	Subsidiary Code	Subledger Code	SL Type	Explanation	Debit Amount	Credit Amount
						0.00	33,685.00
120205	272060						11,513.97
123005	272060					777.71	
123205	272060						6,275.07
123305	272060						7,901.18
120205	680125					11,513.97	
123005	680125						777.71
123205	680125					6,275.07	
123305	680125					7,901.18	
120205	272100						7,216.44
123005	272100						0.63
120205	680120					7,216.44	
123005	680120					0.63	
<b>Totals</b>						<b>33,685.00</b>	<b>33,685.00</b>

*most wanted*

Please indicate the following:

Utility Subsidiary:	12 - Kentucky American
Submitted by:	SULLIVAN KELLEY
Submission Date:	May 13, 2010
Phone Number:	856 310 5847

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

---

**Witness: Michael A. Miller/Sheila Miller**

12. Refer to the Company's response to AG-1-18, AG-1-19, AG-1-31 and to the amounts of property taxes recorded by KAW in Object/Account 685200 (NARUC B40811) for each year (2008, 2009, 2010, base period, and future test year). Please identify, quantify and explain the amount of property taxes in each period that relates to Plant and CWIP that has been financed with CIAC or Advances. If no property taxes relate to Plant that has been financed with CIAC or Advances please explain why not.

**Response:**

The Company objects to this question on the grounds that it seeks information not maintained by the Company or is in the possession of the Company. Notwithstanding the objection, the Company responds. Property taxes in Kentucky are based on the assessed value of all utility plant owned by the Company, whether financed by the Company or by CIACs. The Company has not made a calculation and does not possess any schedule that attempts to calculate property taxes on the assessed value of utility plant financed by CIACs.

For the electronic version, refer to KAW\_R\_AGDR2#12\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

---

**Witness: Sheila Miller**

13. Refer to the Company's response to AG-1-237.
- a. Please show the Company's total assessed values by taxing authority as of each date: (1) 12/31/2007, (2) 12/31/2008 and (3) 12/31/2009.
  - b. Please show the total assessed values by taxing authority that correspond with the amounts of property taxes paid listed on KAW's response to AG-1-237, page 2 of 15.
  - c. Have the assessed values of any of the Company's property decreased since 12/31/2008? If not, explain fully why not. If so, please identify, quantify and explain the decreases.
  - d. Are the amounts of property taxes paid by the Company related to the assessed values of its property? If not, explain fully why not. If so, please identify, quantify and explain the relationship.
  - e. Please show in detail the basis for the additional assessment of \$265,087 for Fayette County for 2008 listed on KAW's response to AG-1-237, page 2 of 15.
  - f. Please show in detail the basis for the additional assessment of \$14,903 for Scott County for 2008 listed on KAW's response to AG-1-237, page 2 of 15.
  - g. Explain why there are no refunds or additional assessments listed for 2006 and only a \$398 refund for 2007 on KAW's response to AG-1-237, page 2 of 15.
  - h. Please show in detail the basis for the refund of \$131,974 for Owen for 2008 listed on KAW's response to AG-1-237, page 2 of 15.

**Response:**

- a. Please see the attached spreadsheet. There were two payments in 2009, Bourbon County and Jessamine County. Both payments pertained to 2008 assessments. There have been no payments for assessments of property in 2009 as a result of the audit by the Kentucky Department of Revenue.



- b. Please refer to the blocked amounts on the attachment included with part a above. The property tax amount utilized by the Company for the property tax expense in this rate filing was the latest available.
- c. See the attachment which details the assessed values by jurisdiction. Some jurisdiction assessments increased while others decreased as detailed by the amended assessments.
- d. Yes. See the attachment to part c above.
- e. The documentation for the additional assessment for Fayette County was provided in the working papers in response to KAW\_R\_PSCDR1#1a\_WP5-1\_031610, pages 13-23 of 120.
- f. The documentation for the additional assessment for Scott County was provided in the working papers in response to KAW\_R\_PSCDR1#1a\_WP5-1\_031610, pages 48-56 of 120.
- g. The additional assessments and refunds in 2009 were the result of the audit by the Kentucky Department of Revenue. There have been no prior audits of the property tax payments and assessments. The information provided in response to KAW\_R\_AGDR1#237 was actual activity for those years.
- h. See attached. Also refer to the attachment to part c above.

For the electronic version of this response, refer to KAW\_R\_AGADR2#13\_052410.pdf.

Kentucky American Water Co. 12  
AGDR2#13, part a

County	Assessed Values Real Estate	Assessed Values Personal Prop	Total Assessment	Taxes Paid Real Estate	Taxes Paid Personal Prop	Total Paid	
<b>Bourbon (Francise Tax)</b>							
2007	\$ 3,038,531	\$ 182,267	\$ 3,220,798	\$ 22,207	\$ 1,852	\$ 24,059	
2008	\$ 4,179,106	\$ 298,078	\$ 4,477,184	\$ 21,817	\$ 1,375	\$ 23,191	
2008 Amended	\$ 3,032,726	\$ 152,351	\$ 3,185,077			\$ -	
2009			\$ -	\$ 31,134	\$ 2,309	\$ 33,443	pd 3/09 - 2008 assessment
<b>Clark (Property Tax)</b>							
2007	\$ 1,774,090	\$ 378,468	\$ 2,152,558	\$ 1,794	\$ 11,140	\$ 12,934	
2008	\$ 2,436,045	\$ 549,932	\$ 2,985,977	\$ 16,004	\$ 3,904	\$ 19,908	
2008 Amended	\$ 1,766,992	\$ 372,673	\$ 2,139,665			\$ -	
2009			\$ -			\$ -	
<b>Fayette</b>							
2007	\$ 114,700,220	\$ 55,457,018	\$ 170,157,238	\$ 1,011,456	\$ 406,167	\$ 1,417,624	
2008	\$ 122,611,870	\$ 65,932,084	\$ 188,543,954	\$ 798,154	\$ 482,887	\$ 1,281,040	
2008 Amended	\$ 126,893,474	\$ 56,275,646	\$ 183,169,120	\$ 158		\$ 158	
2009						\$ -	
<b>Gallatin new location as of 08 Powerplant filing</b>							
2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
2008	\$ 47,917	\$ 1,515	\$ 49,432	\$ 427	\$ 16	\$ 443	
2008 Amended	\$ 44,598	\$ 1,745	\$ 46,343			\$ -	
2009			\$ -			\$ -	
<b>Harrison</b>							
2007	\$ 679,530	\$ 18,394	\$ 697,924	\$ 4,301	\$ 142	\$ 4,444	
2008	\$ 932,968	\$ 36,219	\$ 969,187	\$ 6,036	\$ 277	\$ 6,313	
2008 Amended	\$ 676,709	\$ 11,302	\$ 688,011			\$ -	
2009			\$ -			\$ -	
<b>Jessamine</b>							
2007	\$ 4,750,991	\$ 20,179	\$ 4,771,170	\$ 37,708	\$ 149	\$ 37,856	
2008	\$ 6,581,268	\$ 140,149	\$ 6,721,417	\$ 53,361	\$ 1,385	\$ 54,746	pd 1/09 -2008 assessment
2008 Amended	\$ 4,785,558	\$ 10,452	\$ 4,796,010			\$ -	
2009			\$ -			\$ -	
<b>Owen</b>							
2007	\$ 31,597,219	\$ 4,060,794	\$ 35,658,013	\$ 278,372	\$ 44,165	\$ 322,537	
2008	\$ 45,399,509	\$ 6,118,798	\$ 51,518,307	\$ 398,154	\$ 66,793	\$ 464,947	
2008 Amended	\$ 33,228,783	\$ 3,806,880	\$ 37,035,663			\$ -	
2009			\$ -			\$ -	
<b>Scott Total</b>							
2007	\$ 22,175,728	\$ 4,634,636	\$ 26,810,364	\$ 123,851	\$ 30,236	\$ 154,088	
2008	\$ 21,874,788	\$ 2,589,425	\$ 24,464,213	\$ 118,889	\$ 16,961	\$ 135,850	
2008 Amended	\$ 22,266,728	\$ 4,539,526	\$ 26,806,254			\$ -	
2009			\$ -			\$ -	
<b>Scott Georgetown</b>							
2007	\$ 5,756,939	\$ 2,867,826	\$ 8,624,765	\$ 539	\$ 2,821	\$ 3,360	
2008	\$ 8,043,262	\$ 4,088,063	\$ 12,131,325	\$ 3,780	\$ 4,693	\$ 8,473	
2008 Amended			\$ -			\$ -	
2009			\$ -			\$ -	
<b>Scott Sadieville</b>							
2007	\$ 527,663	\$ 30,101	\$ 557,764	\$ 751	\$ 70	\$ 821	
2008	\$ 724,782	\$ 48,549	\$ 773,331	\$ 993	\$ 68	\$ 1,061	
2008 Amended			\$ -			\$ -	
2009			\$ -			\$ -	
<b>Woodford</b>							
2007	\$ 927,928	\$ 82,125	\$ 1,010,053	\$ 6,285	\$ 707	\$ 6,992	
2008	\$ 1,288,232	\$ 153,062	\$ 1,441,294	\$ 9,151	\$ 848	\$ 9,999	
2008 Amended	\$ 937,329	\$ 104,890	\$ 1,042,219			\$ -	
2009			\$ -			\$ -	
<b>Total State</b>							
2007	\$ 179,644,237	\$ 64,833,881	\$ 244,478,118	\$ 1,487,264	\$ 497,450	\$ 1,984,714	\$ 542,381
2008	\$ 205,351,703	\$ 75,819,262	\$ 281,170,965	\$ 1,426,767	\$ 579,205	\$ 2,005,972	\$ 602,151
2008 Amended	\$ 193,632,897	\$ 65,275,465	\$ 258,908,362	\$ 158	\$ -	\$ 158	\$ 158
2009	\$ -	\$ -	\$ -	\$ 31,134	\$ 2,309	\$ 33,443	\$ 33,443
						taxes per rate case filing	\$ 2,618,533



AGDR2#13, part c.	Company	County	Taxing Jurisdiction	Dept	Attention	Address	City	State	Zip	Phone	Total	Amended Real Tax	Amended Personal Tax	Amended Taxes Total	Refund To KYAW	Due To County
	KY American Water	Bourbon	County & School	County Sheriff	County Clerk	301 Main St	Pains	KY	40361	(859) 987-2142	3,185,077	22,593.81	1,180.11	23,773.92	9,669.33	
	KY American Water	Clark	County & School	County Sheriff	County Clerk	PO Box 218	Winchester	KY	40392	(859) 744-4390	2,139,665	11,609.14	2,645.61	14,254.74	5,654.05	
	KY American Water	Fayette	County & School	County Sheriff	County Clerk	PO Box 34148	Lexington	KY	40588-4148	(859) 252-1771	183,169,120	985,327.83	412,162.83	1,397,490.66		(251,915.41) paid
	Fayette		Special Full & Partial								128,893,474	103,368.02	45,270.38	148,638.41		(13,173.33) paid
	KY American Water	Gallatin	County & School	County Sheriff	County Clerk	PO Box 1025	Warsaw	KY	41095	(859) 567-5751	46,343	397.59	18.10	415.69	27.20	
	KY American Water	Harrison	County & School	County Sheriff	County Clerk	113 W Pike St	Cynthiana	KY	41031	(859) 234-7130	688,011	4,376.31	86.36	4,462.67	1,848.39	
	KY American Water	Jessamine	County & School & Fire	County Sheriff	County Clerk	101 S Second St	Nicholasville	KY	40356	(859) 885-9512	4,796,010	37,423.06	100.39	37,523.46	15,288.19	
	Jessamine		Sub Fire								2,877,606	1,378.24	2.88	1,381.13	552.96	
	KY American Water	Owen	County & School	County Sheriff	County Clerk	102 N Madison St	Owenton	KY	40359	(502) 484-2213	37,035,663	291,416.43	41,555.90	332,972.33	131,974.17	
	KY American Water	Scott	County & School	County Sheriff	County Clerk	120 N Hamilton St	Georgetown	KY	40324	(502) 863-7875	28,806,254	121,019.67	29,733.90	150,753.56		(14,903.36) paid
	KY American Water	Scott	Georgetown	County Sheriff	County Clerk	100 Court St	Georgetown	KY	40324	(502) 863-7875	8,827,751	2,755.50	3,403.79	6,159.30		rcvd
	KY American Water	Scott	Sadleville	City of Sadleville	City Clerk	PO Box 129, 605 Pike St	Sadleville	KY	40370	(502) 857-4576	549,318	720.31	33.20	753.51	307.42	
	KY American Water	Woodford	County & School	County Sheriff	County Clerk	103 S Main St	Versailles	KY	40383	(859) 873-3421	1,042,219	6,462.88	765.38	7,228.27	2,770.96	
	KY Poll Control	Fayette									258,908,362	1,588,650.79	536,956.83	2,125,809.62	170,406.82	(279,992.10)
	KY MFG Equip	Fayette									15,755					
	Total Assessment										22,246,848					
	NETS:										281,170,965				Net	(109,585.29)
	Per Mike Baker, amended certification was due to corrections necessary after inquiry from some counties regarding the lowered assessments. Mike determined that Gabrielle, auditor/preparer of assessment spread/summary, made a few mistakes in picking up the real vs nbv numbers, picking up a portion of real vs the total, and picking up cost mtg/poll instead of reported nbv numbers. The net effect will not be zero, because of the varying tax rates from county to county. Fayette rates are generally higher than most counties.															
	Bourbon										Total Taxes	23,773.92				
	Clark											14,254.74				
	Fayette										1,546,129.06					
	Gallatin										415.69					
	Harrison										4,464.67					
	Jessamine										38,904.58					
	Owen										332,972.33					
	Scott										150,753.56					
	Scott-Georgetown										6,159.30					
	Scott-Sadleville										753.51					
	Woodford										7,228.27					



AMERICAN WATER

40001903

Inv #

101300551

Batch #

101300551

MISCELLANEOUS INVOICE REQUEST

	Yes	No
Check Attached?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Set up customer in the Address Book?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Mail Support w/ Invoice?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Customer Name:	Zemer Hammon Sheriff of Owen County	
Street Address:		
City, State, Zip:	40001903	
Telephone Number:	502-484-3363	
Fax Number:		

**Repetitive Miscellaneous Invoices Only:**  
(all rental contracts must be included to start the repetitive invoices)

Start Date: \_\_\_\_\_ Frequency: (monthly, quarterly, annually) \_\_\_\_\_  
End Date: \_\_\_\_\_ Contract Attached:

Invoice Amount: \_\_\_\_\_ Invoice Date: \_\_\_\_\_  
Purpose of Invoice: \_\_\_\_\_  
Address Book Number (if applicable):  
*Pending receipt of check*

Approval Signature: *[Signature]*  
Approved by: *Adam Pearlman*

Distribution:

Business Unit	Object Account	Subsidiary	Subledger/Task Order	SL Type	Product Code*	Amount
120205	146100	001			TL09	\$131,974.17
<b>INVOICE TOTAL</b>						<b>\$131,974.17</b>

Attach all supporting documentation to the miscellaneous invoice request.

\* Product Code for vendor refunds only

Please indicate the following:

Location:	SSC
Submitted by:	Liz Arriaga
Submission Date:	0
Phone Number:	856-310-5514

Without check: Fax: (856) 672-2867 or Email: AW - MI Requests

With check-Mail to: American Water Capital Corp., PO Box 822192, Philadelphia, PA 19182-2192

Overnite to: PNC Financial Services, Attn: Lockbox #822192, 312 Route 38, Moorestown, NJ 08057

COMMONWEALTH OF KENTUCKY  
DEPARTMENT OF REVENUE  
OFFICE OF PROPERTY VALUATION  
PUBLIC SERVICE SECTION  
501 High Street, 4th Floor, Station 32  
Frankfort, KY 40620  
Phone (502) 564-8175 Fax (502) 564-8192

AMENDED CERTIFICATION OF PROPERTY ASSESSMENT  
TAX YEAR 2008

KENTUCKY AMERICAN WATER CO  
GARY AKMENTINS  
2300 RICHMOND ROAD  
LEXINGTON, KY 40502-1308

GNC: 006080  
TYPE CO: W  
TAX TYPE: 035  
TAX ID:  
PRINT DATE: 05/14/2009

The Department of Revenue certifies this assessment to the County Clerk in accordance with KRS136.180. This assessment is subject to all tax levies as explained below.

When processing an AMENDED certification, check to see if a tax bill has been previously sent. If the tax bill is unpaid, exonerate the original bill and issue a corrected tax bill. If the bill was paid based on the original certification, determine if a supplemental bill should be issued or if a refund is due based on this amendment. Refunds should be taken from current year's collections.

Amended Certification Date(s):		Original Certification Date:	
5/14/2009		10/23/2008	
TAXING JURISDICTION	REAL ESTATE	TANGIBLE PERSONAL	TOTAL ASSESSMENT
OWEN COUNTY GENERAL	33,228,783.00	3,806,880.00	37,035,663.00
SCHOOL OWEN COUNTY GENERAL	33,228,783.00	3,806,880.00	37,035,663.00

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

---

**Witness: Sheila Miller/Michael A. Miller**

14. Refer to the Company's response to AG-1-24.
  - a. Explain in detail why there is no Retirement Work in Progress for any months from March 2009 through March 2010.
  - b. Explain why there are negative amounts for Retirement Work in Progress for January and February 2009.
  - c. Identify and explain all changes in accounting in 2008, 2009 or 2010 that KAW implemented that affected Retirement Work in Progress.

**Response:**

- a. There was Retirement Work in Progress (RWIP) for the period March 2009 thru March, 2010; however, the RWIP was cleared monthly per the current accounting practice of KAW leaving a zero balance in the RWIP accounts at the end of the month.
- b. Receipts for Salvage on scrap meters were greater than cost of removal causing a credit balance in RWIP which was not cleared to Cost of Removal or Salvage accounts until March, 2009.
- c. In December, 2008 the company started a process of clearing the balance of RWIP monthly. This accounting treatment matches the cost of removal and salvage with the asset's end of service.

For the electronic version, refer to KAW\_R\_AGDR2#14\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

---

**Witness: Michael A. Miller**

15. Refer to the Company's response to AG-1-27 and AG-1-148.
- a. Please identify the amount of Regulatory Asset associated with Deferred Income Taxes for each month listed on the response to AG-1-27.
  - b. Please show in detail the amount of SFAS 109 Regulatory Asset by month that KAW utilized in determining the Accumulated Deferred Income Tax rate base reduction.
  - c. Explain fully the "Reg Liab income tax refund thru rates" items listed on KAW's response to AG-1-27, page 2 of 2. Specifically explain what the "inc tax refund" is and how this is "thru rates."
  - d. Please identify, quantify and explain the net amount of income tax expense in the FTY related to FAS 109.
  - e. Please identify, quantify and explain the net amount of rate base in the FTY related to FAS 109.

**Response:**

- a. Deferred taxes are recorded on all items making up the balance Reg Liab Inc Tax Refund thru Rates and FAS 109 Regulatory Assets. See the attached file.
- b. Please see attached.
- c. The Regulatory Liability Income Tax Refund Through Rates is applicable to the following: Account 256212 Regulatory Liability Excess Deferred FIT representative of excess reserves created due to the federal tax rate change mandated by the tax reform act of 1986. These excess reserves are being refunded to ratepayers in compliance with Internal Revenue Code Section 203(e) added by the tax reform act of 86.

Accounts 256310, 256311, and 256312 Regulatory Liability Gross Up ITC 3%, 4% and 10% represent the regulatory liability which was recorded in compliance with FAS 109 to track the future revenue



reduction created to the extent the accumulated deferred ITC is refunded to customers.

- d. All deferred income tax expense and the accumulated deferred tax balance in rate base is related to FAS109. FAS 109 adopted a new concept of temporary differences and mandated the use of the “liability” method for computing deferred income taxes. Temporary differences are defined as the difference between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the assets are recovered and liabilities are settled. As stated several times in the responses to income tax related questions in the AG’s first set of interrogatories, the Commission has consistently recognized FAS 109 for deferred income tax accounting and rate recovery since at least 2000, Mr. Miller’s first rate case for KAW.
- e. See part d above.

For the electronic version, refer to [KAW\\_R\\_AGDR2#15\\_052410.pdf](#).

Kentucky American Water Company  
AG2 Question 15a  
For The Forecasted Test Period Ending 9/30/2011

	Equity component of AFUDC and the related amortization recorded in compliance with FAS109	Plant temporary differences flowed through in prior years recorded in compliance with FAS109	Other temporary differences flowed through in prior years recorded in compliance with FAS109
	a/c 186030, 186035 & 186055 Regulatory asset AFUDC change in balance	a/c 186040 Flow through regulatory asset amortization	a/c 186045 Reg asset other balance
<b>balance</b>	2,497,744.73	4,488,056.00	(601,337.00)
<b>2006</b>	274,186.11	(987,308.00)	24,100.00
<b>2007</b>	492,333.79	(426,000.00)	24,100.00
<b>2008</b>	1,211,983.73	(461,844.00)	24,100.00
<b>2009</b>	258,064.22	(122,325.00)	6,025.00
<b>YTD March 2010</b>	4,734,312.58	3,080,579.00	(423,012.00)

Kentucky-American Water Company  
Amortization of Regulatory Assets and Liabilities  
CASE NO. 2010-00036  
AGDR2#15b

Month	Equity Cross-up Acct 186065		Plant Exp. Through Acct 186040		Other Acct 186045		Excess/Deficit Deferred Federal Taxes Acct 256220		Regulatory Liability Unamortized ITC Acct 256310		Regulatory Liability Unamortized ITC Acct 256311		Equity Cross-up Acct 186030/186035		Total	Balance
	Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance		
Balance @ 11/30/2009		(563,610)		3,241,391		(431,057)		(1,155,724)		(59,049)		(33,234)		(506,384)		5,687,198
Dec-09	(6,687)	(570,297)	(38,487)	3,202,904	2,008	(429,049)	(2,297)	(1,143,991)	432	(58,617)	356	(32,879)	255,734	4,968,788	226,045	5,913,244
Jan-10	(6,687)	(576,984)	(40,775)	3,162,129	2,008	(427,041)	(2,297)	(1,132,257)	432	(58,185)	356	(32,523)	269,676	5,494,198	237,689	6,150,943
Feb-10	(6,687)	(583,671)	(40,775)	3,121,354	2,008	(425,033)	(2,297)	(1,120,524)	432	(57,753)	356	(31,811)	281,536	5,775,734	249,569	6,400,502
Mar-10	(6,687)	(590,358)	(40,775)	3,080,579	2,008	(423,025)	(2,297)	(1,108,790)	432	(57,321)	356	(31,459)	289,589	6,065,323	257,612	6,658,114
Apr-10	(6,687)	(597,045)	(40,775)	3,039,804	2,008	(421,017)	(2,297)	(1,097,057)	432	(56,889)	356	(31,107)	299,477	6,364,800	267,500	6,925,615
May-10	(6,687)	(603,732)	(40,775)	2,999,029	2,008	(419,009)	(2,297)	(1,085,323)	432	(56,457)	356	(30,755)	309,976	6,673,776	276,989	7,202,614
Jun-10	(6,687)	(610,419)	(40,775)	2,958,254	2,008	(417,001)	(2,297)	(1,073,588)	432	(56,025)	356	(30,403)	319,976	6,980,659	284,906	7,487,520
Jul-10	(6,687)	(617,106)	(40,775)	2,917,479	2,008	(414,993)	(2,297)	(1,061,853)	432	(55,593)	356	(30,051)	329,976	7,315,722	293,066	7,780,606
Aug-10	(6,687)	(623,793)	(40,775)	2,876,704	2,008	(412,985)	(2,297)	(1,050,118)	432	(55,161)	356	(29,699)	339,976	7,600,885	298,985	8,071,870
Sep-10	(6,687)	(630,480)	(40,775)	2,835,929	2,008	(410,977)	(2,297)	(1,038,383)	432	(54,729)	356	(29,347)	349,976	7,881,113	303,985	8,363,055
Oct-10	(6,687)	(637,167)	(40,775)	2,795,154	2,008	(408,969)	(2,297)	(1,026,648)	432	(54,297)	356	(29,000)	359,976	8,161,348	309,985	8,654,330
Nov-10	(6,687)	(643,854)	(40,775)	2,754,379	2,008	(406,961)	(2,297)	(1,014,913)	432	(53,865)	356	(28,653)	369,976	8,441,583	315,985	8,945,565
Dec-10	(6,687)	(650,541)	(40,775)	2,713,604	2,008	(404,953)	(2,297)	(1,003,178)	432	(53,433)	356	(28,306)	379,976	8,721,818	321,985	9,236,800
Jan-11	(6,687)	(657,228)	(42,691)	2,672,829	2,008	(402,945)	(2,297)	(991,443)	432	(53,001)	356	(27,959)	389,976	9,002,053	327,985	9,528,035
Feb-11	(6,687)	(663,915)	(42,691)	2,632,054	2,008	(400,937)	(2,297)	(979,708)	432	(52,569)	356	(27,612)	399,976	9,282,288	333,985	9,819,270
Mar-11	(6,687)	(670,602)	(42,691)	2,591,279	2,008	(398,929)	(2,297)	(967,973)	432	(52,137)	356	(27,265)	409,976	9,562,523	339,985	10,110,505
Apr-11	(6,687)	(677,289)	(42,691)	2,550,504	2,008	(396,921)	(2,297)	(956,238)	432	(51,705)	356	(26,918)	419,976	9,842,758	345,985	10,401,740
May-11	(6,687)	(683,976)	(42,691)	2,509,729	2,008	(394,913)	(2,297)	(944,503)	432	(51,273)	356	(26,571)	429,976	10,122,993	351,985	10,692,975
Jun-11	(6,687)	(690,663)	(42,691)	2,468,954	2,008	(392,905)	(2,297)	(932,768)	432	(50,841)	356	(26,224)	439,976	10,403,228	357,985	10,984,210
Jul-11	(6,687)	(697,350)	(42,691)	2,428,179	2,008	(390,897)	(2,297)	(921,033)	432	(50,409)	356	(25,877)	449,976	10,683,463	363,985	11,275,445
Aug-11	(6,687)	(704,037)	(42,691)	2,387,404	2,008	(388,889)	(2,297)	(909,298)	432	(49,977)	356	(25,530)	459,976	10,963,698	369,985	11,566,680
Sep-11	(6,687)	(710,724)	(42,691)	2,346,629	2,008	(386,881)	(2,297)	(897,563)	432	(49,545)	356	(25,183)	469,976	11,243,933	375,985	11,857,915

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**Witness: Michael A. Miller**

16. Refer to the Company's response to AG-1-28.
- a. Please provide the attachment electronically in Excel.
  - b. Please explain each column on pages 2 through 29 of 29.
  - c. For each item listed in column W on pages 2 through 27 of 29, please indicate whether the item is reflected in KAW's rate base, and if not, explain fully why not.
  - d. Please explain the heading on line 30 "Long-Term Temporary Differences (Non-Reg) and for each of the items listed on lines 31 through the line entitled "Subtotal Long Term Temporary Differences (Non-Reg)", explain fully and in detail why KAW considers each such item to be "Non-Reg."

**Response:**

- a. Please refer to the excel file labeled as KAW\_R\_AGDR2#16\_052410.xls.
- b. See attached.
- c. For the actual base period all ADIT items have been included to adjust rate base, except the following:
  - (1) Current temporary difference – do not get included because these items are expected to reverse within one year.
  - (2) Regulatory asset plant flow through-See AG2 question 80(e) for explanation - refer to first paragraph.
  - (3) Regulatory asset other-See AG2 question 80(e) for explanation - refer to first paragraph.
  - (4) Regulatory liability excess deferred FIT-See AG2 question 80(e) for explanation - refer to first paragraph.
  - (5) FIN 48 liability (repairs)-the FIN 48 liability represents the difference between KAW's position taken on the tax return versus

the position utilizing the “more likely than not standard” as required for US GAAP. Fin 48 recognizes that differences in the interpretation of tax law (i.e. legislation and statutes, legislative intent, regulations, rulings and case law) exist, and seeks to eliminate any uncertain tax benefit from the financial statements until the uncertainty associated with the position has been removed. An uncertainty may be removed by either a) review of the technical merits of the position by the relevant taxing authority, b) expiration of the statute of limitations or c) law change. Consequently, the FIN 48 liability has been excluded because it represents an uncertain liability that does not reduce rate base until the uncertainty has been removed by audit, statute expiration or law change.

- d. The heading on line 30 “Long Term Temporary Differences (Non-Reg) is incorrect. The Company does not consider any of these items to be “Non-Reg”. The correct heading for line 30 is “Long Term Temporary Differences”. This correction has been made on the excel file included with this response.

For the electronic version of this response, refer to KAW\_R\_AGDR2#16\_052410.pdf.

**Kentucky American Water Company**

**AG2 Question 16 b**

**Explanation of columns on pages 2 through 29 of 29 KAW\_R\_AGDR1#28\_042610**

**Explanation of columns on pages 2, 4, 6, 8, 10, 12, 14, 16, 18, 20, 22, 24, 26 of KAW\_R\_AGDR1#28\_042610**

**Column**

- |          |   |  |
|----------|---|--|
| <b>G</b> | Opening Balance CGTD:                             | Represents prior year ending balance of gross temporary differences.   |
| <b>H</b> | PY Provision to Return Reconciliation             | Represents true up of prior year provision gross temporary differences to prior year tax return gross temporary differences. |
| <b>I</b> | CGTD Opening Balance Rate Change                  | Reflects impact of federal and/or state tax rate changes.  |
| <b>J</b> | CGTD Opening Balance Sheet Adjust.                | Represents adjustments of gross temporary differences applicable to the prior year recorded in the current year.             |
| <b>K</b> | Reg A/L Opening B/S Adjust Regulatory Rate Change | Reflects impact of federal and/or state tax rate changes on regulatory assets or liabilities.                                |
| <b>L</b> | Regulatory/ITC Cum. Basis Adjustment              | Not Applicable. Column is not utilized.  |
| <b>M</b> | Adjusted Opening Balance                          | Summ of columns G through L  |
| <b>N</b> | CY M-1  | Represents current year gross temporary differences.   |

**Explanation of columns on pages 3, 5, 7, 9, 11, 13, 15, 17, 19, 21, 23, 25 and 27 of KAW\_R\_AGDR1#28\_042610**

**Column**

- |          |                       |   |
|----------|-----------------------|---|
| <b>O</b> | CY Reg A/L Movement   | Represents amortization of FAS109 Regulatory Assets and Liabilities   |
| <b>P</b> | CY Reg ITC Movement   | Represents amortization of Unamortized ITC  |
| <b>Q</b> | CY Equity Adjustments | Not Applicable. Column is not utilized.   |
| <b>R</b> | Other CY Adjustment   | Represents other adjustments of gross temporary differences applicable to the current year recorded in the current year |

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**Witness: Sheila Miller/Keith Cartier**

17. Refer to the Company's response to AG-1-32.
- a. Please provide each of the attachments electronically in Excel.
  - b. Refer to Attachment A, number of employees. Please provide actual in similar detail for April and May 2010.
  - c. Refer to Attachment A, number of employees. Please explain why the differences between Actual March 2010 and Projected April 2010 for hourly, salaried and hourly union are so large.
  - d. Refer to Attachment C, regular payroll. Explain why the expense for each of following months is so much higher than the other months:
    - 1) July 2007;
    - 2) March 2008;
    - 3) December 2008;
    - 4) March 2009;
    - 5) June 2009;
    - 6) November 2009;
    - 7) March 2010;
    - 8) December 2010;
    - 9) March 2011; and
    - 10) August 2011.
  - e. Refer to Attachment D, overtime payroll. Explain why the expense for each of following months is so much higher than the other months:
    - 1) February 2007;
    - 2) July 2008;

- 3) June 2009;
  - 4) July 2010;
  - 5) November 2010;
  - 6) December 2010; and
  - 7) July 2011.
- f. Refer to Attachment D, overtime payroll. Explain why total overtime pay in 2009 is lower than either 2008 or 2007.
- g. Refer to Attachment C, regular payroll and Attachment D, overtime payroll. Explain why there are no amounts for Other for any month April 2010 through September 2011.
- h. Refer to Attachment C, regular payroll and Attachment D, overtime payroll. Explain why there are amounts for Other in each month January 2007 through March 2010.
- i. Explain what functions are included in Other on Attachment D.

**Response:**

- a. Refer to the excel file labeled as KAW\_R\_AGDR2#17\_052410.xls.
- b. April – Non-Union Hourly – 26; Salaried – 46; Union Hourly – 74. The information for May will be provided when it becomes available.
- c. The differences are due to thirteen vacancies in the month of March and were projected to be filled in April to reflect the full complement of employees included in the forecasted test-year filing.
- d. The Company pays its employees on a bi-weekly basis which creates at least two months each year that have 3 pay periods.
  1. 3 pay periods
  2. 3 pay periods and AIP true-up.
  3. 3 pay periods
  4. 3 pay periods and AIP true-up.
  5. 3 pay periods.
  6. 3 pay periods.



7. 3 pay periods and AIP true-up.
  8. 3 pay periods.
  9. The forecasted test-year periods were developed on the hours in the month (accrual method), versus the cash method used for the non-forecasted test-year periods. The month of March 2011 was based on 23 working days.
  10. August 2011 had 23 working days.
- e. See below.
1. Overtime related to escalated OT during severe winter weather and power outages.
  2. The Company undertook a review of its OT exempt employees per federal government guidelines and determined that a number of previously classified positions should have been paid overtime. This higher pay amount for July 2008 reflects the retroactive OT pay as determined by this review
  3. 3 pay periods.
  4. July OT driven by heavy vacation month.
  5. November OT driven by long Thanksgiving holiday.
  6. December OT driven by Christmas holiday and heavy year-end vacations.
  7. July driven by 23 working days and heavy vacation month.
- f. 2009 OT is lower than 2008 and 2007 due to the one-time OT payments referenced in subpart e above, fewer OT emergency hours related to weather related events, and a number of vacancies filled in 2009.
- g. The Other labor is for merchandise and jobbing work and that is applied below the line. The Company did not include any expenses below the line in the rate filing.
- h. See part g above.
- i. See part g above.

For the electronic version, refer to KAW\_R\_AGDR2#17\_052410.pdf.

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**Witness: Sheila Miller**

18. Refer to the Company's response to AG-1-35, AG-1-37 and to AG-1-32 Attachment A.
- a. Please identify and explain the 6 positions difference for Hourly between actual March 2010 and projected April 2010.
  - b. Please identify and explain the 3 positions difference for Salaried between actual March 2010 and projected April 2010.
  - c. Please identify and explain the 4 positions difference for Union Hourly between actual March 2010 and projected April 2010.
  - d. Please reconcile the 8 not filled positions (responses to AG 1-37 and aG-1-37) with the 13 position difference between actual March 2010 and projected April 2010 in AG-1-32 Attachment A. Identify the other 5 positions and indicate whether and when they are projected to be filled.

**Response:**

- a. The six positions for hourly were the production technicians in the original filing. One was filled by Larry Hedge.
- b. The 3 salaried positions included the engineering position, project engineer, and production manager.
- c. The four union positions were utility positions that have been filled by Tracy Stone, Billy Moore, Lewis Walton and a vacant position due to the retirement of Gene Jones.
- d. See table below:

Vacancies in filing

Engineer  
Planning Engineer  
Production Mgr  
Production Tech's (5)

8 positions

Vacancies as of April 2010

Engineer – to be filled see response to PSC-2-3  
Planning engineer - to be filled see response to PSC-2-3  
Production Mgr-position filled 4/26/10 by Cheryl Taylor  
Production Tech's (4)  
Terry Miller – filled 5/24/10  
Martin Olsen – filled 4/19/10  
Currently recruiting add'l production techs to operate KRS II Treatment Plant- See response to PSC-2-3  
Mgr External Affairs - Ray Golden Resigned- actively recruiting replacement  
Utility (4) position  
Tracy Stone filled 4/5/10  
Billy Moore filled 4/6/10  
Lewis Walton filled 4/7/10  
Utility – actively recruiting  
Clerk Operations –position filled 4/19/10  
Stephanie Padgett

13 positions

For the electronic version, refer to KAW-R\_AGDR2#18\_052410.pdf.

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**Witness: Michael A. Miller/Nick Rowe**

19. Refer to the Company's response to AG-1-38. Please provide the 2009 and 2009 AIP performance review forms for all supervisor, management and higher personnel.

**Response:**

Each employee's performance review is very personal and private as to each individual. To make such personal and private information public could lead to problems within the employee ranks at the Company. In addition, making details of the Company's salary administration program public would place the Company at a competitive disadvantage with its competitors. Based on these factors the Company is providing the attached performance reviews confidentially to all those who sign a confidentiality agreement and will be filing a Petition for Confidential Treatment contemporaneously with this response.

Additionally, in responding to this data request, the Company has become aware that a very few Company employees have, on occasion, performed services other than for the Company. The Company will be amending its case accordingly.

For the electronic version, refer to KAW\_R\_AGDR2#19\_CONF\_052410.pdf.

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**Witness: Michael A. Miller**

20. Refer to the Company's response to AG-1-38. Please provide the 2009 and 2009 AIP performance review forms for all supervisor, management and higher personnel at American Water Works Service Company ("AWWSC") who charge or allocate cost to KAW.

**Response:**

The Company objects to this question on the grounds that the request is extremely burdensome. AWWSC has over 1,500 employees located in over a dozen offices and locations in over 20 states where AWWSC provides services to the regulated subsidiaries. To contact those various offices, accumulate over 1,500 performance reviews, and make copies would be extremely burdensome and costly. The Company has provided the performance review forms for KAWC employees in response to KAW\_R\_AGDR2#19 and believes those provide ample information about the types of challenging employee goals that are established each year for eligible AIP participants. Those forms indicate that those goals are established to improve customer service, customer satisfaction, improve efficiency and cost containment, and drive personal development for performance improvement and promotion in the succession planning.

For the electronic version of this response, refer to KAW\_R\_AGDR2#20\_052410.pdf.

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**Witness: Michael A. Miller**

21. Refer to the Company's response to AG-1-39.
- a. Does the targeting of base compensation at the 50<sup>th</sup> percentile apply to both (1) KAW and to (2) AWWSC employees who charge or allocate cost to KAW? If not, explain fully why not, and explain in detail how the base and incentive compensation are developed for AWWSC employees who charge or allocate cost to KAW.
  - b. Does the targeting of incentive compensation at the 65<sup>th</sup> percentile apply to both (1) KAW and to (2) AWWSC employees who charge or allocate cost to KAW? If not, explain fully why not, and explain in detail how the base and incentive compensation are developed for AWWSC employees who charge or allocate cost to KAW.
  - c. Please show in detail how the "market based compensation levels" were developed for each year, 2008, 2009 and 2010. If different for KAW and for AWWSC employees, provide both.
  - d. Please identify and provide a copy of all studies that were used to determine the "market based compensation levels" for each year, 2008, 2009 and 2010. If different for KAW and for AWWSC employees, provide both.

**Response:**

- a. Yes.
- b. Yes.
- c. The job position salary band study was previously supplied in response to PSC-1-14.
- d. Please see the response to part c above.

For the electronic version, refer to KAW\_R\_AGDR2#21\_052410.pdf.

**THIS DOCUMENT CONTAINS  
CONFIDENTIAL INFORMATION**

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**Witness: Keith Cartier**

23. Refer to the Company's response to AG-1-44. Please identify and provide a copy of all "reforecast process" changes that occurred in 2009 and 2010.

**Response:**

During early 2009, a reforecast addressed the assignment of two former service company employees to Kentucky American Water (Donna Braxton and Mike Shryock), and the transfer of one Kentucky American employee to the service company (Nick Rowe).

During Q3, the labor for two positions that had become vacant and were unlikely to be filled before year end was identified in the reforecast process. Those changes are reflected in the attached Reforecast schedules. One of those positions, external affairs manager, was subsequently filled November 30, 2009. The other position, field operations supervisor, was filled January 11, 2010.

For the electronic version, refer to KAW\_R\_AGDR2#23\_052410.pdf.





P&L Comparison  
Kentucky with Growth  
Dec YTD 2009  
(\$ in Thousands)

Report ID: Forecast1  
Autosave: No  
Autosave: No

	YTD Forecast	Prior Reforecast	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Prior Year	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
1	60,999	62,701	(1,702)	(3)%	65,253	(4,254)	(7)%	57,247	3,751	7%
2	329	338	(9)	(3)%	341	(12)	(4)%	309	20	6%
3	2,689	2,480	209	8%	2,226	463	21%	2,529	160	6%
4	64,017	65,519	(1,503)	(2)%	67,820	(3,803)	(6)%	60,086	3,931	7%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
5	133	140	7	5%	141	8	5%	126	(8)	(6)%
6	3,366	3,967	601	18%	4,030	665	19%	3,245	(815)	(25)%
7	2,343	2,685	339	15%	2,685	342	15%	1,749	(936)	(54)%
8	249	294	45	18%	297	48	19%	270	27	10%
	6,091	7,083	992	16%	7,153	1,062	17%	5,390	(1,763)	(33)%
<b>Q&amp;M LABOR &amp; OVERHEAD</b>										
9	6,789	7,057	268	4%	6,943	154	2%	6,585	(204)	(3)%
10	1,397	1,580	183	13%	1,548	(42)	(3)%	1,623	(75)	(5)%
11	2,176	2,231	55	3%	2,243	67	3%	1,682	(461)	(28)%
12	292	337	45	15%	352	60	20%	278	(74)	(27)%
	10,654	10,974	321	3%	10,866	233	2%	9,169	(1,458)	(16)%
13	4,155	3,821	(334)	(8)%	3,779	(376)	(9)%	3,899	(256)	(7)%
14	4,075	4,001	(74)	(2)%	3,997	(78)	(2)%	4,032	(43)	(1)%
15	1,083	1,017	(66)	(6)%	940	(143)	(15)%	881	(62)	(7)%
	5,158	5,018	(140)	(3)%	4,936	(221)	(4)%	4,913	(245)	(5)%
16	264	279	15	5%	279	15	5%	(43)	(43)	(20)%
17	674	714	40	6%	719	45	6%	490	(184)	(28)%
18	1,679	1,730	51	3%	1,730	51	3%	1,536	(194)	(12)%
19	38	53	15	39%	57	19	50%	35	(3)	(9)%
20	532	577	45	8%	584	52	9%	646	114	18%
21	1,767	2,162	395	22%	2,421	654	37%	1,702	(65)	(4)%
22	2,605	2,574	(31)	(1)%	2,732	127	5%	2,684	78	3%
	33,617	34,985	1,368	4%	35,277	1,660	5%	30,684	(2,933)	(10)%
23	5,929	6,847	918	15%	7,034	1,106	16%	5,871	(58)	(1)%
24	521	529	8	2%	533	12	2%	512	(9)	(2)%
	6,450	7,376	926	14%	7,567	1,117	15%	6,383	(67)	(1)%
25	3,491	3,575	84	2%	3,597	106	3%	3,177	(314)	(10)%
27	43,557	45,935	2,378	5%	46,440	2,884	6%	40,243	(3,313)	(8)%
	20,460	19,584	876	4%	21,379	(820)	(4)%	19,842	618	3%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
28	5,480	8,066	2,586	47%	8,996	3,516	64%	(6)	(6)	(100)%
29	684	1,059	375	55%	1,749	1,065	155%	762	78	10%
30	8	8	0	0%	8	0	0%	0	0	0%
31	6,172	9,124	2,952	48%	10,745	4,573	74%	6,449	277	4%
32	3,137	5,993	2,856	91%	3,073	64	2%	1,330	1,808	136%
33	1,461	2,802	1,341	92%	1,396	65	5%	589	871	148%
34	113	120	7	6%	117	5	4%	90	(23)	(26)%
35	-	-	-	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-
39	51	15	36	71%	36	51	104%	57	(6)	(11)%
40	0	1	1	100%	1	1	104%	0	0	0%
41	581	304	(277)	(48)%	336	(245)	(42)%	279	(302)	(109)%
	591	305	(286)	(48)%	337	(244)	(41)%	278	(303)	(109)%
	(930)	(289)	(241)	(26)%	(337)	(193)	(22)%	(221)	309	140%
	(2,217)	(739)	(1,478)	(67)%	(6,731)	4,514	67%	(4,841)	2,624	54%
	18,243	18,845	602	3%	14,649	3,595	25%	15,001	3,242	22%
42	1,005	948	(57)	(6)%	769	(236)	(24)%	895	(110)	(12)%
43	5,964	6,459	495	8%	4,938	(1,026)	(17)%	5,256	(708)	(13)%
44	(7)	(20)	(13)	(19)%	(28)	(21)	(30)%	(9)	(1)	(11)%
45	(45)	(63)	(18)	(40)%	(65)	(20)	(45)%	(30)	(65)	(14)%
46	6,947	7,305	358	5%	5,711	(1,236)	(18)%	6,098	(850)	(12)%
47	11,236	11,540	304	3%	9,078	2,218	24%	8,904	2,392	27%
48	78	78	0	0%	78	0	0%	78	0	0%
	11,218	11,462	(244)	(2)%	9,000	2,218	25%	8,825	2,392	27%
	7,988	7,252	(736)	(9)%	7,252	(736)	(9)%	6,003	(1,955)	(25)%
	3,230	4,210	(980)	(30)%	1,482	1,482	85%	2,822	408	14%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YearTotal
<b>OPERATING REVENUES</b>													
Water Revenues	4,215	3,968	4,307	4,231	4,590	6,182	6,627	6,775	6,659	6,426	5,760	5,532	65,253
Sewer Revenues	28	27	29	29	27	30	29	31	28	28	28	29	341
Other Operating Revenues	185	185	185	185	185	185	185	185	185	185	185	185	2,226
Management Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating Revenues</b>	<b>4,429</b>	<b>4,181</b>	<b>4,520</b>	<b>4,445</b>	<b>4,802</b>	<b>6,397</b>	<b>6,842</b>	<b>6,988</b>	<b>6,856</b>	<b>6,639</b>	<b>5,973</b>	<b>5,747</b>	<b>67,820</b>
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>													
<b>PRODUCTION EXPENSES</b>													
Purchased Water	12	8	14	15	12	10	8	12	16	10	7	17	141
Fuel and Power	282	235	270	250	370	414	423	436	390	380	380	245	4,030
Chemicals	203	136	176	188	209	222	258	314	336	286	193	165	2,685
Waste Disposal	15	16	30	28	25	28	30	26	27	25	24	25	267
<b>Total production costs</b>	<b>511</b>	<b>395</b>	<b>489</b>	<b>480</b>	<b>616</b>	<b>673</b>	<b>719</b>	<b>767</b>	<b>769</b>	<b>701</b>	<b>560</b>	<b>452</b>	<b>7,153</b>
<b>O&amp;M LABOR &amp; OVERHEAD</b>													
Labor	591	538	587	602	579	598	629	574	604	599	593	643	7,137
Pensions	52	52	52	52	52	52	52	52	52	52	52	52	622
Group Insurances	159	159	159	159	159	159	159	159	159	159	159	159	1,913
Other benefits	30	31	31	31	30	29	24	30	25	40	25	26	357
<b>Total employee related</b>	<b>833</b>	<b>782</b>	<b>829</b>	<b>848</b>	<b>820</b>	<b>838</b>	<b>864</b>	<b>816</b>	<b>840</b>	<b>850</b>	<b>829</b>	<b>881</b>	<b>10,029</b>
Management fees	311	293	310	295	291	309	329	280	303	288	288	308	3,615
Shared business services	329	301	322	334	321	337	345	311	329	323	313	336	3,902
Contracted services	76	74	84	73	95	88	77	84	77	70	73	940	940
<b>Total contracted services</b>	<b>405</b>	<b>374</b>	<b>406</b>	<b>407</b>	<b>416</b>	<b>425</b>	<b>418</b>	<b>413</b>	<b>396</b>	<b>413</b>	<b>383</b>	<b>409</b>	<b>4,842</b>
Regulatory expense	14	14	14	14	14	14	30	30	30	30	30	30	279
Insurance Other Than Group	60	60	60	60	60	60	60	60	60	60	60	60	719
Customer Accounting	136	129	134	134	137	151	155	156	155	153	147	145	1,730
Rents	5	5	5	5	5	5	5	5	5	5	5	5	57
General office expense	55	46	46	46	46	46	46	46	46	46	46	46	602
Miscellaneous	183	197	229	186	208	210	190	191	194	169	183	281	2,421
Maintenance	209	208	217	274	226	248	268	215	219	220	216	214	2,732
<b>Total operations and maintenance expense</b>	<b>2,722</b>	<b>2,502</b>	<b>2,750</b>	<b>2,772</b>	<b>2,835</b>	<b>3,008</b>	<b>2,984</b>	<b>2,962</b>	<b>3,032</b>	<b>2,928</b>	<b>2,747</b>	<b>2,831</b>	<b>34,179</b>
Depreciation	572	574	575	576	576	578	589	592	592	595	598	616	7,034
Amortization	44	44	44	44	44	44	44	44	44	44	44	44	533
<b>Depreciation and amortization</b>	<b>616</b>	<b>618</b>	<b>620</b>	<b>621</b>	<b>621</b>	<b>622</b>	<b>634</b>	<b>636</b>	<b>637</b>	<b>640</b>	<b>642</b>	<b>660</b>	<b>7,567</b>
General taxes	298	296	300	301	299	301	303	299	308	301	300	304	3,612
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment charges	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total operating expenses, net</b>	<b>3,637</b>	<b>3,417</b>	<b>3,670</b>	<b>3,674</b>	<b>3,755</b>	<b>3,931</b>	<b>4,025</b>	<b>3,919</b>	<b>3,977</b>	<b>3,869</b>	<b>3,690</b>	<b>3,795</b>	<b>45,358</b>
<b>Operating income</b>	<b>792</b>	<b>764</b>	<b>850</b>	<b>772</b>	<b>1,047</b>	<b>2,466</b>	<b>2,817</b>	<b>3,069</b>	<b>2,879</b>	<b>2,771</b>	<b>2,284</b>	<b>1,951</b>	<b>22,462</b>
<b>OTHER INCOME &amp; DEDUCTIONS</b>													
Interest income	481	481	463	463	811	811	811	811	811	985	1,058	1,058	8,986
Interest on long-term debt	182	211	214	215	158	106	122	135	156	106	53	80	1,737
Interest on Short-Term Bank Debt	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total interest expense</b>	<b>663</b>	<b>691</b>	<b>677</b>	<b>678</b>	<b>969</b>	<b>917</b>	<b>933</b>	<b>946</b>	<b>967</b>	<b>1,041</b>	<b>1,111</b>	<b>1,138</b>	<b>10,793</b>
AFUDC - Equity	325	356	399	445	485	275	42	83	119	153	186	205	3,073
AFUDC - Debt	148	162	181	202	220	125	19	37	54	69	85	93	1,396
Amortization of Debt Expense	6	6	6	6	11	11	11	11	11	14	14	14	117
Preferred dividends of subsidiaries (Consolidation)	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total other income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Miscellaneous Amortization	124	13	32	26	36	45	12	12	14	14	9	7	336
Miscellaneous Other Deductions	125	13	32	26	36	45	12	12	14	14	9	7	337
<b>Total Other Deductions</b>	<b>249</b>	<b>26</b>	<b>64</b>	<b>52</b>	<b>72</b>	<b>90</b>	<b>24</b>	<b>24</b>	<b>28</b>	<b>28</b>	<b>18</b>	<b>14</b>	<b>673</b>
<b>Other, net</b>	<b>(20)</b>	<b>(13)</b>	<b>(32)</b>	<b>(26)</b>	<b>(36)</b>	<b>(45)</b>	<b>(12)</b>	<b>(12)</b>	<b>(14)</b>	<b>(7)</b>	<b>(9)</b>	<b>(7)</b>	<b>(337)</b>
<b>Total other income (deductions)</b>	<b>(20)</b>	<b>(13)</b>	<b>(32)</b>	<b>(26)</b>	<b>(36)</b>	<b>(45)</b>	<b>(12)</b>	<b>(12)</b>	<b>(14)</b>	<b>(7)</b>	<b>(9)</b>	<b>(7)</b>	<b>(337)</b>
<b>Income (loss) before income taxes</b>	<b>472</b>	<b>571</b>	<b>715</b>	<b>708</b>	<b>736</b>	<b>1,895</b>	<b>1,923</b>	<b>2,220</b>	<b>2,060</b>	<b>1,932</b>	<b>1,421</b>	<b>1,091</b>	<b>15,743</b>
State Income Taxes	34	29	36	36	38	91	104	97	91	91	68	53	769
Federal Income Taxes	211	206	259	252	264	658	662	754	704	656	485	377	5,488
Tax Saving Acquisition Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
State income taxes (non-operating)	(10)	(1)	(3)	(2)	(3)	(4)	(1)	(1)	(1)	(1)	(1)	(1)	(28)
Federal income taxes (non-operating)	(40)	(4)	(10)	(6)	(8)	(12)	(4)	(4)	(4)	(4)	(2)	(2)	(108)
<b>Provision for income taxes</b>	<b>195</b>	<b>230</b>	<b>282</b>	<b>277</b>	<b>287</b>	<b>744</b>	<b>748</b>	<b>796</b>	<b>744</b>	<b>744</b>	<b>549</b>	<b>427</b>	<b>6,121</b>
<b>Net income (loss)</b>	<b>277</b>	<b>341</b>	<b>432</b>	<b>431</b>	<b>448</b>	<b>1,163</b>	<b>1,174</b>	<b>1,366</b>	<b>1,265</b>	<b>1,187</b>	<b>872</b>	<b>664</b>	<b>9,622</b>
Preferred Dividend Declared	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income To Common Stock</b>	<b>277</b>	<b>341</b>	<b>432</b>	<b>431</b>	<b>448</b>	<b>1,163</b>	<b>1,174</b>	<b>1,366</b>	<b>1,265</b>	<b>1,187</b>	<b>872</b>	<b>664</b>	<b>9,622</b>
Common Dividend Declared	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Current Year Retained Earnings</b>	<b>271</b>	<b>335</b>	<b>(1,177)</b>	<b>425</b>	<b>442</b>	<b>298</b>	<b>1,168</b>	<b>1,360</b>	<b>(433)</b>	<b>1,181</b>	<b>865</b>	<b>(2,442)</b>	<b>2,292</b>

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

24. Stock based compensation. Refer to the Company's response to AG-1-47.
- a. Please provide the stock based compensation amounts broken out by executive for each period.
  - b. For each stock-based compensation program in existence for 2008, 2009, 2010 or the future test year, please provide the documents, contracts, agreements, and communications materials.

**Response:**

- a. Please see attachment for stock based compensation amounts broken out by executive for the test year. The response to AG-1-47 should have listed the total stock based compensation for the test year as \$160,957. Please refer to the response to data request PSC 2-8 for the stock based compensation amounts for the future test year.
- b. The Omnibus Equity Compensation Plan was provided in response to AG-1-15. Please see the attached documents which provide an amendment to the plan that occurred in 2009, as well as examples of grant agreements referenced in the plan document and communications with eligible participants about the plan.

For the electronic version of this response, refer to KAW\_R\_AGDR2#24\_052410.pdf.

Kentucky American Water Company  
Data Request AG 2-24 Attachment  
Stock Based Compensation  
Test Year

Function	Business Unit	Business Unit Description	Position	Pay Grade	Total Options	Total RSUs	Test Year Total	KAWC Alloc % * Options	KAWC Alloc RSUs	KAWC Alloc Total
Audit	032060	CORP-Audit	VP Internal Audit	ML4	11,875	11,875	23,750	3.32%	394	789
Bus Develop	032020	CORP-Corporate Bus Development	Business Development Mgr - Large Accounts	L05	2,895	2,895	5,790	2.10%	61	121
Bus Develop	032020	CORP-Corporate Bus Development	Dir Business Development	L05	7,232	7,708	14,940	2.10%	152	313
Bus Develop	032020	CORP-Corporate Bus Development	Dir Business Development - Large Accounts	ML4	12,500	12,500	25,000	2.10%	262	524
Bus Develop	032020	CORP-Corporate Bus Development	SVP Corp Business Development	ML3	54,628	68,555	123,183	2.10%	1,145	2,581
Bus Transform	032040	CORP-Business Transformation	VP Business Transformation	ML3B	44,615	47,322	91,937	0.00%	-	-
Bus Transform	032052	CORP-Bsns Trans-Recruit To Ret	Dir HR	ML4	14,234	16,801	31,035	0.00%	-	-
Bus Transform	032053	CORP-Bsns Trans-Record To Rpt	Dir Financial Services	L05	6,005	6,461	12,466	0.00%	-	-
Bus Transform	032056	CORP-Bsns Trans-Ord To Compl	Dir Cust & Oper Support	ML4	17,219	20,303	37,522	0.00%	-	-
CSC	034005	CCA-Administration	Director for CSC	L05	2,917	2,917	5,834	3.66%	107	214
Eastern Div Ops	032023	CORP-Eastern Division Ops	VP Customer Svc	ML4	15,478	19,262	34,740	3.66%	566	1,271
Eastern Div Ops	035002	SE-Network	SVP Eastern Division	ML3	60,429	69,541	129,970	18.72%	11,312	24,330
Eastern Div Ops	035014	SE-Engineering	VP Operations (Large)	L05	4,592	3,962	8,554	0.16%	7	14
External Affairs	032022	CORP-Government Affairs	Dir Engineering (Large)	L05	2,448	2,448	4,896	0.00%	-	-
External Affairs	032025	CORP-External Affairs	Dir Govt Affairs (Corp)	ML4	16,231	18,282	34,513	3.16%	513	1,091
External Affairs	032068	CORP-Marketing	SVP Corp Comm & Ext Affairs	ML3	94,370	94,579	188,948	3.19%	3,006	6,019
External Affairs	032085	CORP-External Communications	Dir Advertising & Marketing	ML4	15,387	17,348	32,735	3.36%	517	1,101
External Affairs	032086	CORP-Internal Communications	Dir External Comm	ML4	14,064	15,957	30,021	3.17%	446	952
External Affairs	033025	WE-External Affairs	Dir Internal Comm	ML4	10,750	13,379	24,129	3.30%	355	797
External Affairs	033525	CE-External Affairs	Dir Comm & EA (State)	L05	5,735	6,117	11,852	0.00%	-	-
External Affairs	035025	SE-External Affairs	Dir Comm & EA (State)	L05	5,577	5,945	11,522	0.00%	-	-
Finance	032007	CORP-Finance	Dir Accounting Policy	L05	5,967	6,354	12,321	29.03%	1,732	1,845
Finance	032007	CORP-Finance	Dir Business Performance Rptg	L05	3,125	3,125	6,250	3.24%	101	202
Finance	032007	CORP-Finance	Dir Corp Accounting	L05	3,335	3,335	6,670	3.24%	108	216
Finance	032007	CORP-Finance	VP & Controller	L05	6,430	6,851	13,281	3.24%	208	430
Finance	032007	CORP-Finance	VP Finance & Accounting	ML3B	42,620	45,795	88,415	3.24%	1,380	2,864
Finance	032017	CORP-Planning & Reporting	VP Finance & Accounting	ML4	32,865	31,186	64,050	3.24%	1,065	2,075
Finance	032017	CORP-Planning & Reporting	Dir Business Performance Reporting	L05	2,975	3,411	6,386	3.30%	98	211
Finance	032027	CORP-Reporting & Compliance	VP Planning & Reporting	ML4	6,292	6,710	13,002	3.40%	214	441
Finance	032027	CORP-Reporting & Compliance	Dir Internal Controls	L05	23,310	22,483	45,793	3.40%	791	1,555
Finance	032047	CORP-Income Tax	Regional Dir Finance	ML4	7,215	7,693	14,908	3.50%	252	521
Finance	032047	CORP-Income Tax	Dir Tax	L05	2,709	2,709	5,418	3.50%	95	190
Finance	032057	CORP-Treasury	Asst Treasurer	L05	2,959	2,959	5,918	3.20%	95	190
Finance	032057	CORP-Treasury	Dir Insurance & Risk Mgt	L05	5,282	5,623	10,905	3.20%	169	349
Finance	032057	CORP-Treasury	VP & Treasurer	ML3B	42,314	43,989	86,303	3.20%	1,355	2,765
Finance	033007	WE-Finance	Dir Rates	L05	4,576	5,671	10,247	0.00%	-	-
Finance	033007	WE-Finance	Regional Dir Finance	ML4	(11,401)	(11,189)	(22,590)	0.00%	-	-
Finance	033507	CE-Finance	Dir FP&A	L05	4,127	5,114	9,241	0.00%	-	-
Finance	033507	CE-Finance	Dir Rates	L05	1,359	2,491	3,850	0.00%	-	-
Finance	033507	CE-Finance	VP Finance Western Division	ML4	31,687	30,079	61,766	0.00%	-	-
Finance	035007	SE-Finance	Dir FP&A	L05	1,108	2,030	3,138	11.80%	131	239
Finance	035007	SE-Finance	Dir FP&A	ML4	1,065	1,952	3,017	11.80%	126	230
Finance	035007	SE-Finance	Dir Rates	L05	1,340	2,457	3,797	32.00%	429	786
Finance	035007	SE-Finance	Dir Rates	L05	6,304	6,800	13,104	11.80%	744	802
Finance	035007	SE-Finance	VP Finance Eastern Division	ML4	9,688	9,688	19,376	11.80%	1,143	2,285

Kentucky American Water Company  
Data Request AG 2-24 Attachment  
Stock Based Compensation  
Test Year

Function	Business Unit	Business Unit Description	Position	Pay Grade	Total Options	Total RSUs	Test Year Total	KAWC Alloc %	KAWC Alloc Options	KAWC Alloc RSUs	KAWC Alloc Total
Finance	036507	NE-Finance	Dir Accounting	L05	2,889	3,309	6,198	0.00%	-	-	-
Finance	036507	NE-Finance	Dir Rates	L05	1,211	2,220	3,431	0.00%	-	-	-
Finance	036507	NE-Finance	Regional Dir Finance	ML4	4,280	7,848	12,128	0.00%	-	-	-
HR	032002	CORP-HR Comp/Benefits	Dir Comp & Benefits	ML4	26,953	25,781	52,734	3.16%	852	815	1,668
HR	032003	CORP-HR Talent Development	Dir Organization & Talent Dev	ML4	10,000	10,000	20,000	3.26%	326	326	652
HR	032004	CORP-HR Labor Relations	Dir Labor & Employee Relations	ML4	26,027	24,682	50,710	3.21%	836	793	1,629
HR	032006	CORP-Business Center HR	Dir HR	ML4	17,547	19,641	37,188	3.24%	569	637	1,205
HR	032013	CORP-HR Systems & Processes	Dir HR Strategies & Solutions	ML4	22,241	21,094	43,335	3.37%	750	711	1,461
HR	032018	CORP-Human Resources	SVP Human Resources	ML3	63,109	66,101	129,210	3.62%	2,286	2,394	4,680
HR	032028	CORP-ED Human Resources	Regional Dir HR	ML4	8,438	8,438	16,876	14.07%	1,187	1,187	2,374
HR	032038	CORP-WD Human Resources	Regional Dir HR	L05	5,830	6,220	12,050	0.00%	-	-	-
HR	032038	CORP-WD Human Resources	Regional Dir HR	ML4	25,569	24,339	49,908	0.00%	-	-	-
HR	034018	CCA-Human Resources	Dir HR (CSC)	L05	2,917	2,917	5,834	3.50%	102	102	204
HR	035018	SE-Human Resources	Regional Director HR	ML4	688	(890)	(202)	0.00%	-	-	-
HR	036518	NE-Human Resources	Regional Director HR	ML4	649	(837)	(188)	0.00%	-	-	-
Inv Relations	032037	CORP-Investor Relations	VP Investor Relations	ML4	29,942	28,421	58,363	1.96%	587	557	1,143
ITS	032030	CORP-ITS Client Rel Admin	Dir Client Servcs Support ITS	L05	4,494	3,902	8,396	3.59%	162	140	302
ITS	032030	CORP-ITS Client Rel Admin	Dir Entrpse Security Opns ITS	L05	1,085	1,988	3,073	3.59%	39	71	110
ITS	032071	CORP-ITS Admin	VP & CIO	ML3B	48,180	47,383	95,563	3.62%	1,743	1,714	3,457
ITS	032072	CORP-ITS PMO	Dir PMO ITS	L05	5,720	6,065	11,785	3.56%	204	216	420
ITS	032072	CORP-ITS PMO	Sr Project Mgr ITS	L06	1,562	934	2,496	3.56%	56	33	89
ITS	032078	CORP-ITS Infra/Oper Admin	Dir Infrastructure & Opns ITS	L05	6,111	6,515	12,626	3.55%	217	231	448
ITS	032078	CORP-ITS Adm Business Appl Dev	Dir Core Business Systems ITS	L05	5,072	6,261	11,333	3.50%	178	219	397
ITS	032093	CORP-ITS-Architecture	Dir Strategy & Arch ITS	L05	6,787	7,273	14,060	3.55%	241	258	500
Legal	032015	CORP-Legal	Chief Ethics & Compliance Off	ML4	11,075	11,075	22,150	1.38%	153	153	306
Legal	032015	CORP-Legal	Corp Counsel III	L05	5,962	6,341	12,303	1.38%	82	88	170
Legal	032015	CORP-Legal	Corp Counsel III (Contract)	L05	6,435	6,861	13,296	1.38%	89	95	184
Legal	032015	CORP-Legal	Counsel (SEC)	ML4	20,122	19,931	40,053	1.38%	278	276	554
Legal	032015	CORP-Legal	Employment and Labor Law Counsel	ML4	13,716	12,504	26,220	1.38%	190	173	363
Legal	032015	CORP-Legal	Regional General Counsel	ML4	11,882	11,882	23,764	1.38%	164	164	329
Legal	032015	CORP-Legal	SVP General Counsel & Secty	ML3P	99,060	101,698	200,757	1.38%	1,370	1,407	2,777
Legal	033015	WE-Legal	Corp Counsel III	L05	6,520	6,953	13,473	0.00%	-	-	-
Legal	033015	WE-Legal	Regional General Counsel	ML4	25,389	24,113	49,502	0.00%	-	-	-
Legal	033515	CE-Legal	Corp Counsel III Regional	L05	5,953	6,356	12,309	0.00%	-	-	-
Legal	033515	CE-Legal	Corp Counsel III Regional	L05	3,894	4,903	8,797	0.00%	-	-	-
Legal	033515	CE-Legal	Corp Counsel III Regional	L05	5,894	6,285	12,179	0.00%	-	-	-
Legal	033515	CE-Legal	Corp Counsel III Regional	L05	1,081	1,982	3,063	0.00%	-	-	-
Legal	033515	CE-Legal	Corp Counsel III Regional	L05	5,364	5,720	11,084	0.00%	-	-	-
Legal	033515	CE-Legal	Regional General Counsel	ML4	32,126	30,493	62,618	0.00%	-	-	-
Legal	035015	SE-Legal	Corp Counsel III Regional	L05	5,182	5,529	10,711	20.48%	1,061	1,133	2,194
Legal	035015	SE-Legal	Corp Counsel III Regional	L05	4,802	5,125	9,927	20.48%	984	1,050	2,033
Legal	035015	SE-Legal	Eastern Division General Counsel	ML4	27,369	25,984	53,353	20.48%	5,606	5,323	10,929
Legal	036515	NE-Legal	Corp Counsel III Regional	L05	13	(111)	(98)	0.00%	-	-	-
Legal	036515	NE-Legal	Corp Counsel III Regional	L05	5,887	6,292	12,179	0.00%	-	-	-
Legal	036515	NE-Legal	Corp Counsel III Regional	L05	5,295	5,632	10,927	0.00%	-	-	-
Legal	036515	NE-Legal	Regional General Counsel	ML4	824	(1,063)	(239)	0.00%	-	-	-

Kentucky American Water Company  
Data Request AG 2-24 Attachment  
Stock Based Compensation  
Test Year

Function	Business Unit	Business Unit Description	Position	Pay Grade	Total Options	Total RSUs	Test Year Total	KAWC Alloc % * Options	KAWC Alloc RSUs	KAWC Alloc Total
Operations	032010	CORP-Supply Chain-Sourcing	Dir Supply Chain	ML4	21,447	20,415	41,862	3.82%	819	1,599
Operations	032011	CORP-Chief Operating Officer	President AW Services	ML2Y	196,182	165,285	361,467	3.15%	6,184	11,394
Operations	032011	CORP-Chief Operating Officer	VP Operations Services	ML3B	41,779	42,948	84,727	3.15%	1,317	2,671
Operations	032016	CORP-Maintenance Services	Sr Dir Maintnc & SCADA Svcs	ML4	10,000	10,000	20,000	3.58%	358	716
Operations	032019	CORP-Operational Risk	Sr Dir Operational Risk Mgt	ML4	22,605	21,777	44,382	3.15%	713	1,400
Operations	032019	CORP-Operational Performance	Dir Process & Systems Mgmt	L06	3,178	3,611	6,789	3.20%	102	217
Operations	032065	CORP-Asset Management	Sr Dir Engineering (Corp)	ML4	22,699	21,969	44,668	3.20%	727	1,430
Operations	032066	CORP-Research & Env Excellence	Dir Res & Environ Excellence	ML4	22,952	21,808	44,760	2.68%	614	1,198
Operations	034517	BVLAB-Water Quality	Dir Laboratory	L05	4,306	5,337	9,643	3.66%	158	353
Operations	035016	SE-Maintenance	Sr Dir Maintnc & SCADA Svcs	ML4	6,647	8,461	15,108	23.18%	1,541	3,502
Operations	036550	CORP-COE-Engineering	Dir Engineering - Construction	L05	5,317	5,665	10,982	2.75%	146	302
Operations	036551	CORP-COE-Technical Services	Dir Engineering - Tech Svcs	L05	5,186	5,526	10,712	2.84%	147	304
Other	032089	CORP-AWE Pass-Thru	Dir Finance AWE	ML4	14,122	12,955	27,076	0.00%	-	-
Other	032089	CORP-AWE Pass-Thru	Director Business Development - AWE	ML4	366	(366)	(0)	0.00%	-	-
Other	032098	CORP-Non-Departmental Costs	Assoc General Counsel III	N05	1,299	2,382	3,681	0.00%	-	-
Other	032098	CORP-Non-Departmental Costs	Dir Comm & EA (Mega State)	ML4	3,762	6,896	10,658	0.00%	-	-
Other	032098	CORP-Non-Departmental Costs	President West Virginia American Water	ML4	273	(273)	(0)	0.00%	-	-
Regulated Ops	032026	CORP-Regulated Ops	Finance Position	L05	3,125	3,125	6,250	3.53%	110	221
Regulatory	032069	CORP-Regulatory UFS	President, New Jersey	ML3	593	(595)	(2)	0.00%	-	-
Regulatory	032069	CORP-Regulatory UFS	VP & Counsel Reg Prgms	ML4	20,377	22,763	43,140	3.25%	661	1,400
SSC	032505	SSC-Administration	Dir Accounting	L05	5,971	6,375	12,346	3.36%	201	415
SSC	032505	SSC-Administration	Dir Accounting (SSC)	L05	6,552	7,020	13,572	3.36%	220	457
SSC	032505	SSC-Administration	Dir Financial Services	L05	4,460	5,519	9,979	3.36%	150	336
SSC	032505	SSC-Administration	Dir Financial Services	L05	2,604	2,604	5,208	3.36%	88	175
SSC	032505	SSC-Administration	Dir Rates	L05	2,858	2,858	5,716	3.36%	96	192
SSC	032505	SSC-Administration	VP Shared Services	L05	2,982	2,982	5,964	3.36%	100	201
Western Div Ops	032024	Corp-Western Division Ops	Executive VP Western Division	ML4	29,574	28,124	57,698	3.36%	995	1,941
Western Div Ops	033005	WE-Administration	Regional President	ML3	40,625	40,625	81,250	0.00%	-	-
Western Div Ops	033006	WE-Service Delivery	Dir Business Performance	ML3	72,652	68,358	141,010	0.00%	-	-
Western Div Ops	033006	WE-Service Delivery	Dir Cust & Oper Support	L06	981	1,798	2,779	0.00%	-	-
Western Div Ops	033014	WE-Engineering	Dir Engineering (Large)	ML4	(21,427)	(21,223)	(42,650)	0.00%	-	-
Western Div Ops	033014	WE-Engineering	Dir Engineering (Large)	L05	5,729	6,209	11,938	0.00%	-	-
Western Div Ops	033501	CE-Production	Dir Engineering (Large)	L05	1,234	2,263	3,497	0.00%	-	-
Western Div Ops	033502	CE-Production	Dir Production	L06	10	(85)	(75)	0.00%	-	-
Western Div Ops	033502	CE-Network	Dir Field Operations (Large)	L05	2,254	3,769	6,024	0.00%	-	-
Western Div Ops	033502	CE-Network	VP Operations (Large)	L05	6,214	6,604	12,818	0.00%	-	-
Western Div Ops	033505	CE-Administration	President (Large States)	ML4	25,736	24,575	50,311	0.00%	-	-
Western Div Ops	033505	CE-Administration	Regional Director Service Delivery	ML4	5,642	(3,972)	1,670	0.00%	-	-
Western Div Ops	033505	CE-Administration	Regional President - Central	ML3	14,934	794	15,728	0.00%	-	-
Western Div Ops	033505	CE-Administration	VP Operations (Large)	ML4	7,728	6,420	14,148	0.00%	-	-
Western Div Ops	033514	CE-Engineering	Dir Engineering (Large)	L05	1,138	2,086	3,224	0.00%	-	-
Western Div Ops	033514	CE-Engineering	Dir Engineering (Large)	L05	5,027	5,305	10,332	0.00%	-	-
Western Div Ops	033514	CE-Engineering	Dir Engineering (Large)	L05	5,408	5,818	11,226	0.00%	-	-
					2,149,961	2,175,669	4,325,630		72,796	149,039
									76,244	149,039

EX-10.6 7 dex106.htm AMEND. 2009-1 TO NONQUALIFIED SAVINGS AND DEFERRED COMPENSATION PLAN-EMPLOYEES

Exhibit 10.6

**AMENDMENT 2009-1  
TO THE  
NONQUALIFIED SAVINGS AND  
DEFERRED COMPENSATION PLAN FOR  
EMPLOYEES OF  
AMERICAN WATER WORKS COMPANY, INC.  
AND ITS DESIGNATED SUBSIDIARIES**

Pursuant to the authority reserved to the American Water Works Company, Inc. Board of Directors (the "Board") under Section 8.01 of the Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and Its Designated Subsidiaries (the "Plan"), the Board hereby amends the Plan, effective as of February 6, 2009, as follows:

1. The last sentence of the first paragraph under Article I of the Plan is hereby amended in its entirety to read as follows:

"Lastly, certain Group I Employees and Group III Employees are eligible to receive additional contributions referred to as Special Contributions."

2. Section 2.52 of the Plan is hereby amended in its entirety to read as follows:

"2.52 **"Special Contribution"** means the amount credited to the Plan for a Group I Employee and Group III Employee during the 2008 and 2009 Plan Years by AWW pursuant to Sections 4.01(d) and 4.03(c), respectively. The Group I Employees and Group III Employees who are eligible to receive the Special Contribution are those who are specifically designated as eligible to receive such under the Plan at the time of such Special Contribution. No other Group I Employees or Group III Employees are eligible to receive the Special Contribution."

3. Section 4.01(d) of the Plan is hereby amended in its entirety to read as follows:

"(d) Special Contribution.

(i) During the 2008 Plan Year, AWW credited to the Special Contribution Account certain Special Contributions for the benefit of those Group I Employees who were specifically designated by the Board to receive such Special Contributions, the value of which was determined by the Board at such time. Only those Group I Employees who were specifically designated to receive the Special Contributions were eligible to receive such Special Contributions.

(ii) As soon as administratively practicable on or after February 6, 2009, AWW shall make a Special Contribution to the Special Contribution Account of each Group I Employee who is designated to receive the Special Contribution pursuant to this clause (ii) on the attached Exhibit E; provided, however, that each such specifically designated Group I Employee must be employed by the Employer on February 6, 2009, and qualify as a Group I Employee on such date. The Special Contribution pursuant to this clause (ii) for each such Group I Employee shall be equivalent in value to the amount set forth for such Group I Employee on the attached Exhibit E. Any Group I Employee who is not listed on the attached Exhibit E shall not be eligible to receive the Special Contribution pursuant to this clause (ii). The Special Contribution provided for in this clause (ii) shall be a one-time contribution."

4. The last sentence of Section 4.01(e) of the Plan is hereby amended in its entirety to read as follows:

“The Plan Year election that shall apply as to the time of distribution for a Group I Employee’s



Special Contributions shall be the eligible Group I Employee's 2008 Plan Year election for Special Contributions made pursuant to clause 4.01(d)(i), and 2009 Plan Year election for Special Contributions made pursuant to clause 4.01(d)(ii)."

5. The last sentence of Section 4.01(f) of the Plan is hereby amended in its entirety to read as follows:  
 "The Plan Year election that shall apply as to the form of distribution for a Group I Employee's Special Contribution shall be the eligible Group I Employee's 2008 Plan Year election for Special Contributions made pursuant to clause 4.01(d)(i), and 2009 Plan Year election for Special Contributions made pursuant to clause 4.01(d)(ii)."
6. The first sentence of Section 5.01 of the Plan is hereby amended in its entirety to read as follows:  
 "The Deemed Investment Options available under the Plan shall consist of those funds that the Committee has designated as the Deemed Investment Options under the Plan; provided, however, the Committee reserves the right, on a prospective basis, to add or delete Deemed Investment Options."
7. The last sentence of Section 5.02 of the Plan is hereby deleted in its entirety from the Plan.
8. A new Exhibit E shall be added to the Plan to read as follows:

**"EXHIBIT E"**

**SPECIAL CONTRIBUTION FOR 2009 PLAN YEAR**

The following sets forth the Group I Employees who shall be eligible to receive the one-time Special Contribution as set forth in Sections 4.01(d)(ii) and the amount of the Special Contribution that each such Group I Employee shall be eligible to receive pursuant to such Section:

<u>Employee Name</u>	<u>Amount of Special Contribution</u>
Correll, Donald L.	\$ 18,296.59
Monica, Laura L.	\$ 5,058.14
Pape, Kathy L.	\$ 1,796.76
Settelen Jr., John L.	\$ 1,256.87
Twadelle, Andrew S.	\$ 1,466.52
Vallejo, Edward D.	\$ 1,175.74
Wolf, Ellen C.	\$ 9,543.47

9. In all respects not modified by this Amendment 2009-1, the Plan is hereby ratified and confirmed.

[SIGNATURE PAGE FOLLOWS]

**IN WITNESS WHEREOF**, and as evidence of the adoption of this Amendment 2009-1 to the Plan set forth herein, the Board has caused this instrument to be executed this 21<sup>st</sup> day of February, 2009.

American Water Works Company, Inc.  
Board of Directors

/s/ George W. Patrick

By: George W. Patrick

EX-10.5 6 dex105.htm 2007 OMNIBUS EQUITY COMPENSATION PLAN  
 NONQUALIFIED STOCK OPTION GRANT--ML4-ML5

**Exhibit 10.5**

***FORM FOR 2009 LTIP – FOR ML4 -ML5  
 “OPTION GRANT”***

AMERICAN WATER WORKS COMPANY, INC.  
 2007 OMNIBUS EQUITY COMPENSATION PLAN  
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of February , 2009 (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2009 long-term incentive program (“2009 LTIP”) pursuant to which designated employees will be granted equity awards (the “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share, (the “Company Stock”);

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a performance stock unit grant;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2009 LTIP and to grant the Participant an Equity Award under the 2009 LTIP; and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Equity Award granted to the Participant pursuant to the 2009 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the “Plan”) and the terms and conditions of such nonqualified stock option shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the “Option”) to purchase shares of Company Stock, at an exercise price of \$ per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b) or (c) below, the Option shall become exercisable on the following dates, if the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable date:

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
January 1, 2010	1/3
January 1, 2011	1/3
January 1, 2012	1/3

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Company Stock subject to the Option. If the foregoing schedule would produce fractional shares of Company Stock, the number of shares of Company Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Company Stock. The Option shall become fully exercisable on January 1, 2012, if the Participant is employed by, or providing service to, the Employer on such date.

(b) If at any time prior to the date the Participant's Option becomes exercisable as described in subparagraph (a) above, the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Option shall become fully exercisable on the date of the Participant's termination of employment or service with the Employer on account of death or Total Disability. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If a Change of Control (as defined in the Plan) occurs while the Participant is employed by or providing service to the Employer, then the Option shall become fully exercisable as of the date of the Change of Control.

### 3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2015, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates on account of death or Total Disability, the expiration of the one year period following the date of the Participant's termination of employment or service on account of death or Total Disability.

(ii) If the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), the expiration of the one year period following the date of the Participant's termination of employment or service on account of Normal Retirement. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained both (A) at least age 55, and (B) total years of employment and service with the Employer equals or exceeds 10.

(iii) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), Normal Retirement, death or Total Disability, the expiration of the ninety (90) day period following the date of the Participant's termination of employment or service for any reason other than on account of termination for Cause, death, Total Disability or Normal Retirement.

(iv) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 2015. Any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

#### 4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the

Option after the Participant's death) represent that the Participant is purchasing the shares of Company Stock for the Participant's own account and not with a view to or for sale in connection with any distribution of the shares of Company Stock, or such other representation as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set forth in Paragraph 2(c) of this Grant, the provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which is incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees to be bound by the terms of the Plan and the Grant and that all decisions and determinations of the Committee with respect to the Grant shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares.

9. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS  
COMPANY, INC.

By:

Its:



EX-10.2 3 dex102.htm 2007 OMNIBUS EQUITY COMPENSATION PLAN  
PERFORMANCE STOCK UNIT GRANT--ML1-ML3B

Exhibit 10.2

**FORM FOR 2009 LTIP – FOR ML 1 – ML 3B  
“PSU GRANT”**

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2009 long-term incentive program (“2009 LTIP”) pursuant to which designated employees will be granted equity awards (the “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share, (the “Company Stock”);

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a performance stock unit grant;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2009 LTIP and to grant the Participant an Equity Award under the 2009 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2009 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the “Plan”) and the terms and conditions of such performance stock unit shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

- Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant performance stock units (the “Performance Units”). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the performance goals and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the performance goals described in Paragraph 3 below (the “Target Award”).
- Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the “Performance Unit Account”) for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

### 3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals described in subparagraph (b) below for the Performance Period and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company's Total Stockholder Return ("TSR") will be compared to the return of the Dow Jones Utility Index (the "Index") over the Performance Period. The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company's TSR relative to the performance of the Index, as set forth below. No Performance Units will be earned if the Company's TSR relative to the Index is below the threshold level.

<u>Level of Achievement</u>	<u>Percentile Ranking Relative to Index</u>	<u>Percentage of Target Award Earned</u>
<i>Maximum</i>	75%	150%
<i>Target</i>	50%	100%
<i>Threshold</i>	25%	50%

If actual performance is between measuring points, the number of Performance Units the Participant earns will be interpolated.

(c) TSR represents Company Stock price performance and dividend accumulation over the Performance Period. For purposes of this calculation, the initial Company Stock price and the ending Company Stock price are determined using the 30-day average Company Stock price for the first December 31 and the last December 31 of the Performance Period, as applicable. The 30-day average Company Stock price is the average of the daily closing Company Stock prices for the 15 trading days before and after the applicable December 31. To determine Company Stock price performance, a dividend adjustment factor will be determined. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in Company Stock price by reason of deeming the dividend to be reinvested in the Company Stock. TSR is determined by adjusting the ending Company Stock price as determined above by the dividend adjustment factor and comparing it to the initial Company Stock price. The initial Company Stock price is \$            per share.

(d) At the end of the Performance Period, the Committee will determine whether and to what extent the performance goals have been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the target level as of the date of the Change of Control (the "Change of Control Date"). For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(f) For purposes of this Grant, the term "Performance Period" shall mean the three-year period beginning on January 1, 2009 and ending December 31, 2011.

#### 4. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the performance goals and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2010, but prior to January 1, 2011; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2011, but prior to January 1, 2012; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 1, 2012. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the performance goals. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned within seventy (70) days following the earlier of (i) January 1, 2012 (the "Distribution Date") or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the performance goals will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant and complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit A or as may subsequently modified in the discretion of the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account at the time of the declaration of the dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that 50% of the shares of Company Stock earned by the Participant upon the distribution of the Performance Units pursuant to this Grant shall not be tradable until the Participant terminates employment or service with the Employer.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant shall be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

19. Section 409A of the Code.

(a) As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant designate the calendar year of distribution.

(b) Notwithstanding any provision to the contrary in this Grant, if any of the distributions under this Grant constitute deferred compensation subject to the requirements of section 409A of the Code and such amounts are payable to the Participant upon "separation from service" (within the meaning of section 409A(a)(2)(a)(i) of the Code and its corresponding regulations) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all distributions to the Participant pursuant to this Grant shall be postponed for a period of six (6) months following the Participant's separation from service from the Employer. The postponed amounts shall be distributed to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer, and any amounts distributable to the Participant after the expiration of such six (6) month period under this Grant shall continue to be distributed to the Participant in accordance with the terms of this Grant. If the Participant dies during such six-month period and prior to the distribution of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be distributed to the personal representative of the Participant's estate within sixty (60) days after the date of the Participant's death, and any amounts not delayed shall be distributed to the personal representative of the Participant's estate in accordance with the terms of this Grant.

*[SIGNATURE PAGE FOLLOWS]*



IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS  
COMPANY, INC.

By:

Its:

EX-10.3 4 dex103.htm 2007 OMNIBUS EQUITY COMPENSATION PLAN  
 PERFORMANCE STOCK UNIT GRANT--ML4-ML5

Exhibit 10.3

**FORM FOR 2009 LTIP – FOR ML 4 – ML 5  
 “PSU GRANT”**

AMERICAN WATER WORKS COMPANY, INC.  
 2007 OMNIBUS EQUITY COMPENSATION PLAN  
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of \_\_\_\_\_ (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to \_\_\_\_\_ (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2009 long-term incentive program (“2009 LTIP”) pursuant to which designated employees will be granted equity awards (the “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share, (the “Company Stock”);

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a performance stock unit grant;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2009 LTIP and to grant the Participant an Equity Award under the 2009 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2009 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the “Plan”) and the terms and conditions of such performance stock unit shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ performance stock units (the “Performance Units”). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the performance goals and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the performance goals described in Paragraph 3 below (the “Target Award”).
2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the “Performance Unit Account”) for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

### 3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals described in subparagraph (b) below for the Performance Period and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company's Total Stockholder Return ("TSR") will be compared to the return of the Dow Jones Utility Index (the "Index") over the Performance Period. The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company's TSR relative to the performance of the Index, as set forth below. No Performance Units will be earned if the Company's TSR relative to the Index is below the threshold level.

<u>Level of Achievement</u>	<u>Percentile Ranking Relative to Index</u>	<u>Percentage of Target Award Earned</u>
<i>Maximum</i>	75%	150%
<i>Target</i>	50%	100%
<i>Threshold</i>	25%	50%

If actual performance is between measuring points, the number of Performance Units the Participant earns will be interpolated.

(c) TSR represents Company Stock price performance and dividend accumulation over the Performance Period. For purposes of this calculation, the initial Company Stock price and the ending Company Stock price are determined using the 30-day average Company Stock price for the first December 31 and the last December 31 of the Performance Period, as applicable. The 30-day average Company Stock price is the average of the daily closing Company Stock prices for the 15 trading days before and after the applicable December 31. To determine Company Stock price performance, a dividend adjustment factor will be determined. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in Company Stock price by reason of deeming the dividend to be reinvested in the Company Stock. TSR is determined by adjusting the ending Company Stock price as determined above by the dividend adjustment factor and comparing it to the initial Company Stock price. The initial Company Stock price is \$            per share.

(d) At the end of the Performance Period, the Committee will determine whether and to what extent the performance goals have been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the target level as of the date of the Change of Control (the "Change of Control Date"). For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(f) For purposes of this Grant, the term "Performance Period" shall mean the three-year period beginning on January 1, 2009 and ending December 31, 2011.

#### 4. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the performance goals and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2010, but prior to January 1, 2011; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2011, but prior to January 1, 2012; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 1, 2012. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the performance goals. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned within seventy (70) days following the earlier of (i) January 1, 2012 (the "Distribution Date") or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the performance goals will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant and complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit A or as may subsequently modified in the discretion of the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account at the time of the declaration of the dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this

Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant shall be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

19. Section 409A of the Code.

(a) As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant designate the calendar year of distribution.

(b) Notwithstanding any provision to the contrary in this Grant, if any of the distributions under this Grant constitute deferred compensation subject to the requirements of section 409A of the Code and such amounts are payable to the Participant upon "separation from service" (within the meaning of section 409A(a)(2)(a)(i) of the Code and its corresponding regulations) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all distributions to the Participant pursuant to this Grant shall be postponed for a period of six (6) months following the Participant's separation from service from the Employer. The postponed amounts shall be distributed to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer, and any amounts distributable to the Participant after the expiration of such six (6) month period under this Grant shall continue to be distributed to the Participant in accordance with the terms of this Grant. If the Participant dies during such six-month period and prior to the distribution of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be distributed to the personal representative of the Participant's estate within sixty (60) days after the date of the Participant's death, and any amounts not delayed shall be distributed to the personal representative of the Participant's estate in accordance with the terms of this Grant.

[SIGNATURE PAGE FOLLOWS]



IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS  
COMPANY, INC.

By:

Its:

EX-10.4 5 dex104.htm 2007 OMNIBUS EQUITY COMPENSATION PLAN  
 NONQUALIFIED STOCK OPTION GRANT--ML1-ML3B

Exhibit 10.4

**FORM FOR 2009 LTIP – FOR ML1 – ML3B  
 “OPTION GRANT”**

AMERICAN WATER WORKS COMPANY, INC.  
 2007 OMNIBUS EQUITY COMPENSATION PLAN  
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of February , 2009 (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2009 long-term incentive program (“2009 LTIP”) pursuant to which designated employees will be granted equity awards (the “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share, (the “Company Stock”);

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a performance stock unit grant;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2009 LTIP and to grant the Participant an Equity Award under the 2009 LTIP; and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Equity Award granted to the Participant pursuant to the 2009 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the “Plan”) and the terms and conditions of such nonqualified stock option shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the “Option”) to purchase shares of Company Stock, at an exercise price of \$ per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b) or (c) below, the Option shall become exercisable on the following dates, if the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable date:

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
January 1, 2010	1/3
January 1, 2011	1/3
January 1, 2012	1/3

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Company Stock subject to the Option. If the foregoing schedule would produce fractional shares of Company Stock, the number of shares of Company Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Company Stock. The Option shall become fully exercisable on January 1, 2012, if the Participant is employed by, or providing service to, the Employer on such date.

(b) If at any time prior to the date the Participant's Option becomes exercisable as described in subparagraph (a) above, the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Option shall become fully exercisable on the date of the Participant's termination of employment or service with the Employer on account of death or Total Disability. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If a Change of Control (as defined in the Plan) occurs while the Participant is employed by or providing service to the Employer, then the Option shall become fully exercisable as of the date of the Change of Control.

### 3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2015, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates on account of death or Total Disability, the expiration of the one year period following the date of the Participant's termination of employment or service on account of death or Total Disability.

(ii) If the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), the expiration of the one year period following the date of the Participant's termination on employment or service on account of Normal Retirement. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained both (A) at least age 55, and (B) total years of employment and service with the Employer equals or exceeds 10.

(iii) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), Normal Retirement, death or Total Disability, the expiration of the ninety (90) day period following the date of the Participant's termination of employment or service for any reason other than on account of termination for Cause, death, Total Disability or Normal Retirement.

(iv) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 2015. Any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

#### 4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the

Option after the Participant's death) represent that the Participant is purchasing the shares of Company Stock for the Participant's own account and not with a view to or for sale in connection with any distribution of the shares of Company Stock, or such other representation as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set forth in Paragraph 2(c) of this Grant, the provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which is incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees to be bound by the terms of the Plan and the Grant and that all decisions and determinations of the Committee with respect to the Grant shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that 50% of the shares of Company Stock obtained by the Participant upon the exercise of the Option shall not be tradeable until the Participant terminates employment or service with the Employer.

9. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

*[SIGNATURE PAGE FOLLOWS]*

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS  
COMPANY, INC.

By:

Its:



EX-10.31 7 dex1031.htm 2007 OMNIBUS FIRST NONQUALIFIED STOCK OPTION  
FORM - ML1-ML3 EMPLOYEES

Exhibit 10.31

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of \_\_\_\_\_ (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, in connection with the initial public offering of the shares of common stock of the Company, par value \$0.01 per share, (the "Company Stock"), the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined that, in accordance with the terms of the Participant's letter, dated August 27, 2007, the Participant's contingent cash award will be converted to an equity award (the "Equity Award") for shares of Company Stock;

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a restricted stock unit grant; and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Equity Award granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such nonqualified stock option shall be memorialized in this Grant.

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the "Option") to purchase \_\_\_\_\_ shares of Company Stock, which is equivalent to 175% of the Participant's target award, at an exercise price of \$\_\_\_\_\_ per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b), (c), (d) or (e) below, in order for the Option to become exercisable the Participant must continue to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through January 1, 2010; provided that the number of shares of Company Stock subject to the Option that shall become exercisable on January 1, 2010 (the "Service Date") shall be determined based on the satisfaction of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals"). The Committee shall certify the level of achievement of the Performance Goals, which certification shall occur as soon as administratively practicable after January 1, 2009, but not later than ninety (90) days following January 1, 2009, (the "Certification Date"). Any portion of the Option that does not become exercisable because of the failure to fully satisfy the Performance Goals shall

be forfeited as of the Certification Date and the Participant shall not have any rights to exercise the portion of the Option attributable to the forfeited shares of Company Stock on the Service Date.

(b) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Option shall become exercisable as a result of the Participant's termination for death or Total Disability; provided, however, that the number of shares of Company Stock subject to the Option that shall become exercisable shall be determined based on the satisfaction of the Performance Goals and the Option shall not become exercisable until the later of (i) the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date, or (ii) the date on which the Participant's employment or service with the Employer has terminated on account of death or Total Disability. Any portion of the Option that does not become exercisable because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date and the Participant or the Participant's beneficiary, as applicable, shall not have any rights to exercise the portion of the Option attributable to the forfeited shares of Company Stock. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of Normal Retirement (as defined below), the Option shall become exercisable as a result of the termination of the Participant's employment or service on account of Normal Retirement; provided, however, that the number of shares of Company Stock subject to the Option that shall become exercisable shall be determined based on the satisfaction of the Performance Goals and such number of shares of Company Stock that shall be exercisable shall be pro rated, with such pro ration determined by taking the number of shares that become exercisable based on the satisfaction of the Performance Goals, multiplied by a fraction, the numerator of which is the number of whole months that the Participant was employed by, or providing service to, the Employer from January 1, 2007 to the date on which the Participant's employment or service with the Employer terminated on account of Normal Retirement (with the month in which the Participant terminating counting as a full month) and the denominator of which is thirty-six (36). The Option shall not become exercisable until the later of (i) the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date, or (ii) the date on which the Participant's employment or service with the Employer has terminated on account of Normal Retirement. Any portion of the Option that does not become exercisable because of the failure to fully satisfy the Performance Goals, along with the pro rata portion of the shares of Company Stock that do not become exercisable as described above, shall be forfeited as of the Certification Date and the Participant shall not have any rights to exercise the portion of the Option attributable to the forfeited shares of Company Stock. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained age 62 and been employed or provided service with the Employer for at least five (5) years.

(d) If at any time prior to the Service Date the Participant's employment or service with the Employer terminates for any reason other than death, Total Disability or Normal

Retirement, all of the shares of Company Stock subject to the Option shall be immediately forfeited and the Participant shall not have any rights to exercise such shares.

(e) If at any time prior to the Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined in the Plan) occurs, then the Option shall become exercisable as of the date of the Change of Control (the "Change of Control Date"); provided, however, that the number of shares of Company Stock subject to the Option that shall become exercisable as of the Change of Control Date shall be determined based on the satisfaction of the Performance Goals as of the (i) date of the Change of Control if the Change of Control occurs prior to the Certification Date, with such criteria adjusted using actual performance through the most recent reporting period prior to the Change of Control as compared to the forecast, or (ii) the Certification Date, if the Certification Date occurs prior to the date of the Change of Control. The Option shall not become exercisable until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date or the Change of Control Date, if earlier. Any portion of the Option that does not become exercisable because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date or the Change of Control Date, if earlier, and the Participant shall not have any rights to exercise the portion of the Option attributable to the forfeited shares of Company Stock.

### 3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2013 and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates on account of death or Total Disability, the expiration of the later of (A) the one year period following the date of the Participant's death or Total Disability or (B) the one year period following the earlier of the Certification Date or the Change of Control Date.

(ii) If the Participant's employment or service with the Employer terminates on account of Normal Retirement, the expiration of the later of (A) the one year period following the date of the Participant's termination on account of Normal Retirement or (B) the one year period following the earlier of the Certification Date or the Change of Control Date.

(iii) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), death, Total Disability or Normal Retirement, the expiration of the later of (A) the ninety (90) day period following the date of the Participant's termination of employment or service or (B) the ninety (90) day period following the earlier of the Certification Date or the Change of Control Date.

(iv) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 2013. Except as provided in Paragraph 2, any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

#### 4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing Shares for the Participant's own account and not with a view to or for sale in connection with any distribution of the Shares, or such other representation as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set forth in Paragraph 2(e) of this Grant, the provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which is incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees to be bound by the terms of the Plan and the Grant and that all decisions and determinations of the Committee with respect to the Grant shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that 50% of the shares of Company Stock obtained by the Participant upon the exercise of the Option shall not be tradable until the Participant owns enough shares,

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measured using the average price per share of all shares of Company Stock the Participant owns outright, stock or stock units held in deferred compensation plans, including tax-qualified retirement plans, and time-based restricted stock, to meet or exceed **[300% of the Participant's salary, if the Participant is a Management Level 1 employee] or [200% of the Participant's salary, if the Participant is a Management Level 2 employee] or [100% of the Participant's salary, if the Participant is a Management Level 3 employee].**

9. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in

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a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

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EX-10.26 2 dex1026.htm 2007 OMNIBUS FIRST RESTRICTED STOCK UNIT FORM  
- ML1-ML3 EMPLOYEES**Exhibit 10.26**  
**FORM FOR ML1 – ML3**  
**“FIRST GRANT”**AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of \_\_\_\_\_ (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to \_\_\_\_\_ (the “Participant”).

RECITALS

WHEREAS, in connection with the initial public offering of the shares of common stock of the Company, par value \$0.01 per share, (the “Company Stock”), the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined that, in accordance with the terms of the Participant’s letter, dated August 27, 2007, the Participant’s contingent cash award will be converted to an equity award (the “Equity Award”) for shares of Company Stock;

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a restricted stock unit grant; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the “Plan”) and the terms and conditions of such restricted stock unit shall be memorialized in this Grant.

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ units (the “Restricted Stock Units”), which is equivalent to 175% of the Participant’s target award. Each unit (a “Unit”) shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).
2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the “Restricted Stock Unit Account”) for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.
3. Vesting.

(a) Except as provided in subparagraphs (b), (c), (d) or (e) below, in order to become vested in the Restricted Stock Units the Participant must continue to be employed by, or

providing service to, the Employer (as defined in the Plan) from the Date of Grant through January 1, 2010; provided, however, that the number of Units that shall become vested on January 1, 2010 (the "Service Date") shall be determined based on the satisfaction of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals"). The Committee shall certify the level of achievement of the Performance Goals, which certification shall occur as soon as administratively practicable after January 1, 2009, but not later than ninety (90) days following January 1, 2009, (the "Certification Date"). Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited.

(b) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Participant or the Participant's beneficiary, as applicable, shall become vested in the Restricted Stock Units as a result of the Participant's termination for death or Total Disability; provided, however, that the number of Units that shall become vested shall be determined based on the satisfaction of the Performance Goals. No vesting of the Units shall occur until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date. Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date and the Participant or the Participant's beneficiary, as applicable, shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of Normal Retirement (as defined below), the Participant shall become vested in the Restricted Stock Units as a result of the Participant's termination for Normal Retirement; provided, however, that the number of Units that shall become vested shall be determined based on the satisfaction of the Performance Goals and such number of Units that shall become vested shall be pro rated, with such pro ration determined by taking the total number of Units subject to the Restricted Stock Unit that become vested based on the satisfaction of the Performance Goals, multiplied by a fraction, the numerator of which is the number of whole months that the Participant was employed by, or providing service to, the Employer from January 1, 2007 to the date on which the Participant's employment or service with the Employer terminated on account of Normal Retirement (with the month in which the Participant terminating counting as a full month) and the denominator of which is thirty-six (36). No vesting of the Units shall occur until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date. Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals, along with the pro rata portion of the Units that do not become vested as described above, shall be forfeited as of the Certification Date and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer,

that the Participant has attained age 62 and been employed or provided service with the Employer for at least five (5) years.

(d) If at any time prior to the Service Date the Participant's employment or service with the Employer terminates for any reason other than death, Total Disability or Normal Retirement, all of the Units subject to the Restricted Stock Unit shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(e) If at any time prior to the Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, then the Restricted Stock Unit shall become vested as of the date of the Change of Control (the "Change of Control Date"); provided, however, that the number of Units that shall become vested as of the Change of Control Date shall be determined based on the satisfaction of the Performance Goals as of the (i) date of the Change of Control, if the Change of Control occurs prior to the Certification Date, with such criteria adjusted using actual performance through the most recent reporting period prior to the Change of Control as compared to the forecast, or (ii) Certification Date, if the Certification Date occurs prior to the date of the Change of Control. No vesting of the Units shall occur until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date or the Change of Control Date, if earlier. Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals, as adjusted pursuant to this subparagraph, shall be forfeited as of the Certification Date or Change of Control Date, if earlier, and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Agreement, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed by the Company on: (i) the Service Date, or as soon as administratively practicable thereafter, but not later than thirty (30) days following the Service Date, if the Participant continues to be employed by, or provide service to the Employer, from the Date of Grant to the Service Date; (ii) the Certification Date, or as soon as administratively practicable thereafter, but not later than thirty (30) days following the Certification Date, if the Participant terminates employment or service with the Employer for death, Total Disability or Normal Retirement on or prior to the Certification Date, (iii) the date on which the Participant terminates employment or service with the Employer on account of death, Total Disability or Normal Retirement, or as soon as administratively practicable thereafter, but not later than thirty (30) days following such termination of employment or service with the Employer, if the Participant terminates employment or service with the Employer for death, Total Disability or Normal Retirement after the Certification Date, but prior to the Service Date; or (iv) the Change of Control Date, if earlier than the Service Date (collectively, the "Redemption Date"). On the Redemption Date (or, if

applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that have become vested pursuant to Paragraph 3 will be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution of such shares of Company Stock, which shall be issued under the Plan. Notwithstanding the foregoing, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Redemption Date for the Restricted Stock Units shall not be on the occurrence of the Change of Control, but instead shall be the date described in clauses (i), (ii) or (iii) above, as applicable, as if no Change of Control occurred, or, if elected, the Deferred Date (as defined below). All redemptions pursuant to this Paragraph 4 shall be deemed as a separate payment for purposes of section 409A of the Code.

#### 5. Deferrals.

(a) No later than December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date of any portion of, or all of, the Restricted Stock Units that vest, to a date that occurs after the Redemption Date by completing the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit B or as subsequently modified to comply with the requirements of section 409A of the Code; provided, however, that if the Redemption Date occurs at any time during the 2008 calendar year, the Participant's deferral election pursuant to this Paragraph 5(a) shall not become effective. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(b) After December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit B or as subsequently modified to comply with the requirements of section 409A of the Code. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(c) If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date." All redemptions pursuant to this Paragraph 5 shall be deemed as a separate payment for purposes of section 409A of the Code.

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the

Participant's Restricted Stock Unit Account at the time of the declaration of the dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends created to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account. Each cash payment pursuant to this Paragraph 6 shall be deemed as a separate payment for purposes of section 409A of the Code.

7. Change of Control. Except as set forth in Paragraph 3(e) of this Grant, the provisions set forth in the Plan applicable to a Change of Control shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that 50% of the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall not be tradable until the Participant owns enough shares, measured using the average price per share of all shares of Company Stock the Participant owns outright, stock or stock units held in deferred compensation plans, including tax-qualified retirement plans, and time-based restricted stock, to meet or exceed **[300% of the Participant's salary, if the Participant is a Management Level 1 employee] or [200% of the Participant's salary, if the Participant is a Management Level 2 employee] or [100% of the Participant's salary, if the Participant is a Management Level 3 employee].**

10. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

11. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

12. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

13. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company

hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

14. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption/distribution of the Restricted Stock Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units shall be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

15. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

16. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

17. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

18. Section 409A of the Code.

(a) As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted to avoid any penalty sanctions under section 409A of the Code. If any redemption or distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such redemption or distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Notwithstanding anything herein to the contrary, the Committee may, without the Participant's consent, amend this Grant or any election by a Participant to comply with the requirements of section 409A of the Code to the extent the Committee determines, in the sole discretion, that such amendments are necessary.

(b) Notwithstanding any provision to the contrary in this Agreement, if any of the payments under this Agreement are deemed as deferred compensation subject to the requirements of section 409A of the Code and such amounts are payable to the Participant upon "separation from service" (within the meaning of section 409A(a)(2)(a)(i) of the Code and its corresponding regulations) from the Employer, then if at the time of the Participant's separation

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from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all payments to the Participant pursuant to this Agreement shall be postponed for a period of six months following the Participant's separation from service from the Employer. The postponed amounts shall be paid to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer, and any amounts payable to the Participant after the expiration of such six (6) month period under this Agreement shall continue to be paid to the Participant in accordance with the terms of this Agreement. If the Participant dies during such six-month period and prior to the payment of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be paid to the personal representative of the Participant's estate within sixty (60) days after the Company receives notice of the Participant's death, and any amounts not delayed shall be paid to the personal representative of the Participant's estate in accordance with the terms of this Agreement.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: \_\_\_\_\_

\_\_\_\_\_

Its: \_\_\_\_\_

\_\_\_\_\_

EX-10.29 5 dex1029.htm 2007 OMNIBUS SECOND RESTRICTED STOCK UNIT  
FORM - ML1-ML3 EMPLOYEES

Exhibit 10.29

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of \_\_\_\_\_ (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined to grant the Participant an equity award (the "Equity Award") for shares of Common Stock of the Company, par value \$0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a restricted stock unit grant; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such restricted stock unit shall be memorialized in this Grant.

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ units (the "Restricted Stock Units"), which is equivalent to 175% of the Participant's target award. Each unit (a "Unit") shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).
2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the "Restricted Stock Unit Account") for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.
3. Vesting.
  - (a) Except as provided in subparagraphs (b), (c), (d) or (e) below, in order to become vested in the Restricted Stock Units the Participant must continue to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through January 1, 2011; provided, however, that the number of Units that shall become vested on

January 1, 2011 (the "Service Date") shall be determined based on the satisfaction of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals"). The Committee shall certify the level of achievement of the Performance Goals, which certification shall occur as soon as administratively practicable after January 1, 2010, but not later than ninety (90) days following January 1, 2010, (the "Certification Date"). Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited.

(b) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Participant or the Participant's beneficiary, as applicable, shall become vested in the Restricted Stock Units as a result of the Participant's termination for death or Total Disability; provided, however, that the number of Units that shall become vested shall be determined based on the satisfaction of the Performance Goals. No vesting of the Units shall occur until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date. Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date and the Participant or the Participant's beneficiary, as applicable, shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of Normal Retirement (as defined below), the Participant shall become vested in the Restricted Stock Units as a result of the Participant's termination for Normal Retirement; provided, however, that the number of Units that shall become vested shall be determined based on the satisfaction of the Performance Goals and such number of Units that shall become vested shall be pro rated, with such pro ration determined by taking the total number of Units subject to the Restricted Stock Unit that become vested based on the satisfaction of the Performance Goals, multiplied by a fraction, the numerator of which is the number of whole months that the Participant was employed by, or providing service to, the Employer from January 1, 2008 to the date on which the Participant's employment or service with the Employer terminated on account of Normal Retirement (with the month in which the Participant terminating counting as a full month) and the denominator of which is thirty-six (36). No vesting of the Units shall occur until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date. Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals, along with the pro rata portion of the Units that do not become vested as described above, shall be forfeited as of the Certification Date and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained age 62 and been employed or provided service with the Employer for at least five (5) years.

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(d) If at any time prior to the Service Date the Participant's employment or service with the Employer terminates for any reason other than death, Total Disability or Normal Retirement, all of the Units subject to the Restricted Stock Unit shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(e) If at any time prior to the Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, then the Restricted Stock Unit shall become vested as of the date of the Change of Control (the "Change of Control Date"); provided, however, that the number of Units that shall become vested as of the Change of Control Date shall be determined based on the satisfaction of the Performance Goals as of the (i) date of the Change of Control, if the Change of Control occurs prior to the Certification Date, with such criteria adjusted using actual performance through the most recent reporting period prior to the Change of Control as compared to the forecast, or (ii) Certification Date, if the Certification Date occurs prior to the date of the Change of Control. No vesting of the Units shall occur until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date or the Change of Control Date, if earlier. Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals, as adjusted pursuant to this subparagraph, shall be forfeited as of the Certification Date or the Change of Control Date, if earlier, and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Agreement, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed by the Company on: (i) the Service Date, or as soon as administratively practicable thereafter, but not later than thirty (30) days following the Service Date, if the Participant continues to be employed by, or provide service to the Employer, from the Date of Grant to the Service Date; (ii) the Certification Date, or as soon as administratively practicable thereafter, but not later than thirty (30) days following the Certification Date, if the Participant terminates employment or service with the Employer for death, Total Disability or Normal Retirement on or prior to the Certification Date, (iii) the date on which the Participant terminates employment or service with the Employer on account of death, Total Disability or Normal Retirement, or as soon as administratively practicable thereafter, but not later than thirty (30) days following such termination of employment or service with the Employer, if the Participant terminates employment or service with the Employer for death, Total Disability or Normal Retirement after the Certification Date, but prior to the Service Date; or (iv) the Change of Control Date, if earlier than the Service Date (collectively, the "Redemption Date"). On the Redemption Date (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that have become vested pursuant to Paragraph 3 will be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution

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of such shares of Company Stock, which shall be issued under the Plan. Notwithstanding the foregoing, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Redemption Date for the Restricted Stock Units shall not be on the occurrence of the Change of Control, but instead shall be the date described in clauses (i), (ii) or (iii) above, as applicable, as if no Change of Control occurred, or, if elected, the Deferred Date (as defined below). All redemptions pursuant to this Paragraph 4 shall be deemed as a separate payment for purposes of section 409A of the Code.

#### 5. Deferrals.

(a) No later than December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date of any portion of, or all of, the Restricted Stock Units that vest, to a date that occurs after the Redemption Date by completing the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit B or as subsequently modified to comply with the requirements of section 409A of the Code; provided, however, that if the Redemption Date occurs at any time during the 2008 calendar year, the Participant's deferral election pursuant to this Paragraph 5(a) shall not become effective. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(b) After December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit B or as subsequently modified to comply with the requirements of section 409A of the Code. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(c) If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date." All redemptions pursuant to this Paragraph 5 shall be deemed as a separate payment for purposes of section 409A of the Code.

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the Participant's Restricted Stock Unit Account at the time of the declaration of the dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant a lump sum cash payment equal to the value of the

dividends created to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account. Each cash payment pursuant to this Paragraph 6 shall be deemed as a separate payment for purposes of section 409A of the Code.

7. Change of Control. Except as set forth in Paragraph 3(e) of this Grant, the provisions set forth in the Plan applicable to a Change of Control shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year

that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that 50% of the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall not be tradable until the Participant owns enough shares, measured using the average price per share of all shares of Company Stock the Participant owns outright, stock or stock units held in deferred compensation plans, including tax-qualified retirement plans, and time-based restricted stock, to meet or exceed **[300% of the Participant's salary, if the Participant is a Management Level 1 employee] or [200% of the Participant's salary, if the Participant is a Management Level 2 employee] or [100% of the Participant's salary, if the Participant is a Management Level 3 employee]**.

10. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

11. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

12. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

13. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

14. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption/distribution of the Restricted Stock Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units shall be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

15. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

16. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

17. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

18. Section 409A of the Code.

(a) As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted to avoid any penalty sanctions under section 409A of the Code. If any redemption or distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such redemption or distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Notwithstanding anything herein to the contrary, the Committee may, without the Participant's consent, amend this Grant or any election by a Participant to comply with the requirements of section 409A of the Code to the extent the Committee determines, in the sole discretion, that such amendments are necessary.

(b) Notwithstanding any provision to the contrary in this Agreement, if any of the payments under this Agreement are deemed as deferred compensation subject to the requirements of section 409A of the Code and such amounts are payable to the Participant upon "separation from service" (within the meaning of section 409A(a)(2)(a)(i) of the Code and its corresponding regulations) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee

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determination policy, then all payments to the Participant pursuant to this Agreement shall be postponed for a period of six months following the Participant's separation from service from the Employer. The postponed amounts shall be paid to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer, and any amounts payable to the Participant after the expiration of such six (6) month period under this Agreement shall continue to be paid to the Participant in accordance with the terms of this Agreement. If the Participant dies during such six-month period and prior to the payment of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be paid to the personal representative of the Participant's estate within sixty (60) days after the Company receives notice of the Participant's death, and any amounts not delayed shall be paid to the personal representative of the Participant's estate in accordance with the terms of this Agreement.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: \_\_\_\_\_  
\_\_\_\_\_

Its: \_\_\_\_\_  
\_\_\_\_\_

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EX-10.32 8 dex1032.htm 2007 OMNIBUS FIRST NONQUALIFIED STOCK OPTION  
FORM - ML4 EMPLOYEES

Exhibit 10.32

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of \_\_\_\_\_ (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, in connection with the initial public offering of the shares of common stock of the Company, par value \$0.01 per share, (the "Company Stock"), the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined that, in accordance with the terms of the Participant's letter, dated August 27, 2007, the Participant's contingent cash award will be converted to an equity award (the "Equity Award") for shares of Company Stock;

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a restricted stock unit grant; and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Equity Award granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such nonqualified stock option shall be memorialized in this Grant.

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the "Option") to purchase \_\_\_\_\_ shares of Company Stock at an exercise price of \$ \_\_\_\_\_ per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b), (c), (d) or (e) below, the Option shall become fully exercisable on January 1, 2010 (the "Exercisability Date"), provided the Participant is continually employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the Exercisability Date.

(b) If at any time prior to the Exercisability Date the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Option shall become fully exercisable as of the date of the Participant's termination of employment or service on account of death or Total Disability. For purposes of this Grant, the

term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If at any time prior to the Exercisability Date the Participant's employment or service with the Employer is terminated on account of Normal Retirement (as defined below), the Option shall become exercisable as of the date of the Participant's termination of employment or service on account of Normal Retirement; provided, however, that the number of shares of Company Stock subject to the Option that shall become exercisable as of such date shall be pro rated, with such pro ration determined by taking the number of shares subject to the Option multiplied by a fraction, the numerator of which is the number of whole months that the Participant was employed by, or providing service to, the Employer from January 1, 2007 to the date on which the Participant's employment or service terminated on account of Normal Retirement (with the month in which the Participant terminating counting as a full month) and the denominator of which is thirty-six (36). Any shares of Company Stock subject to the Option that do not become exercisable as described above shall be forfeited and the Participant shall not have any rights to exercise the portion of the Option attributable to the forfeited shares of Company Stock. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained age 62 and been employed or provided service with the Employer for at least five (5) years.

(d) If at any time prior to the Exercisability Date the Participant's employment or service with the Employer terminates for any reason other than death, Total Disability or Normal Retirement, all of the shares of Company Stock subject to the Option shall be immediately forfeited and the Participant shall not have any rights to exercise such shares.

(e) If at any time prior to the Exercisability Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined in the Plan) occurs, then the Option shall become exercisable as of the date of the Change of Control.

### 3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2013 and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates on account of death or Total Disability, the expiration of the one year period following the date of the Participant's death or Total Disability.

(ii) If the Participant's employment or service with the Employer terminates on account of Normal Retirement, the expiration of the one year period following the date of the Participant's termination on account of Normal Retirement.

(iii) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), death, Total Disability or Normal Retirement, the expiration of the ninety (90) day period following the date of the Participant's termination of employment or service.

(iv) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 2013. Except as provided in Paragraph 2, any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

#### 4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the

Option after the Participant's death) represent that the Participant is purchasing Shares for the Participant's own account and not with a view to or for sale in connection with any distribution of the Shares, or such other representation as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set forth in Paragraph 2(e) of this Grant, the provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which is incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees to be bound by the terms of the Plan and the Grant and that all decisions and determinations of the Committee with respect to the Grant shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares.

9. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_



EX-10.27 3 dex1027.htm 2007 OMNIBUS FIRST RESTRICTED STOCK UNIT FORM  
- ML4 EMPLOYEES

Exhibit 10.27

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of \_\_\_\_\_ (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, in connection with the initial public offering of the shares of common stock of the Company, par value \$0.01 per share, (the "Company Stock"), the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined that, in accordance with the terms of the Participant's letter, dated August 27, 2007, the Participant's contingent cash award will be converted to an equity award (the "Equity Award") for shares of Company Stock;

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a restricted stock unit grant; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such restricted stock unit shall be memorialized in this Grant.

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_ units (the "Restricted Stock Units"). Each unit (a "Unit") shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).
2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the "Restricted Stock Unit Account") for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.
3. Vesting.
  - (a) Except as provided in subparagraphs (b), (c), (d) or (e) below, the Restricted Stock Units shall become vested on January 1, 2010 (the "Service Date"), provided the

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Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the Service Date.

(b) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Restricted Stock Units shall fully vest on the date of the Participant's termination of employment or service with the Employer on account of death or Total Disability. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of Normal Retirement (as defined below), the Participant shall vest in a pro rata portion of the Restricted Stock Unit on the date of the Participant's termination of employment or service with the Employer on account of Normal Retirement. The pro rated portion that shall vest shall be determined by taking the total number of Units subject to the Restricted Stock Unit, multiplied by a fraction, the numerator of which is the number of whole months that the Participant was employed by, or providing service to, the Employer from January 1, 2007 to the date on which the Participant's employment or service terminated on account of Normal Retirement (with the month in which the Participant terminating counting as a full month) and the denominator of which is thirty-six (36). Any portion of the Restricted Stock Unit that does not become vested as described above shall be forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained age 62 and been employed or provided service with the Employer for at least five (5) years.

(d) If at any time prior to the Service Date the Participant's employment or service with the Employer terminates for any reason other than death, Total Disability or Normal Retirement, all of the Units subject to the Restricted Stock Unit shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(e) If at any time prior to the Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, then the Restricted Stock Unit shall become vested on the date of the Change of Control. For purposes of this Agreement, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(f) The date on which all or any portion of the Restricted Stock Unit becomes vested as described in this Paragraph 3 shall hereinafter be referred to as the "Vesting Date".

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units shall be redeemed by the Company on the Vesting Date or as soon as administratively practicable thereafter, but not later than thirty (30) days following the Vesting Date, (the "Redemption Date"). On the Redemption Date (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution of such shares of Company Stock, which shall be issued under the Plan. Notwithstanding the foregoing, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Redemption Date for the Restricted Stock Units shall not be on the occurrence of the Change of Control, but instead shall be the original Vesting Date, as if no Change of Control occurred, or, if elected, the Deferred Date (as defined below). All redemptions pursuant to this Paragraph 4 shall be deemed as a separate payment for purposes of section 409A of the Code.

5. Deferrals.

(a) No later than December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date of any portion of, or all of, the Restricted Stock Units that vest, to a date that occurs after the Redemption Date by completing the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit B or as subsequently modified to comply with the requirements of section 409A of the Code; provided, however, that if the Redemption Date occurs at any time during the 2008 calendar year, the Participant's deferral election pursuant to this Paragraph 5(a) shall not become effective. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(b) After December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit A or as subsequently modified to comply with the requirements of section 409A of the Code. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(c) If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date." All redemptions pursuant to this Paragraph 5 shall be deemed as a separate payment for purposes of section 409A of the Code.

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the Participant's Restricted Stock Unit Account at the time of the declaration of the dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends created to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account. Each cash payment pursuant to this Paragraph 6 shall be deemed as a separate payment for purposes of section 409A of the Code.

7. Change of Control. Except as set forth in Paragraph 3(e) of this Grant, the provisions set forth in the Plan applicable to a Change of Control shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares.

10. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

11. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

12. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

13. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

14. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption/distribution of the Restricted Stock Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units shall be satisfied by having shares of Company Stock withheld, up to an amount that does

not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

15. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

16. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

17. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

18. Section 409A of the Code.

(a) As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted to avoid any penalty sanctions under section 409A of the Code. If any redemption or distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such redemption or distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Notwithstanding anything herein to the contrary, the Committee may, without the Participant's consent, amend this Grant or any election by a Participant to comply with the requirements of section 409A of the Code to the extent the Committee determines, in the sole discretion, that such amendments are necessary.

(b) Notwithstanding any provision to the contrary in this Agreement, if any of the payments under this Agreement are deemed as deferred compensation subject to the requirements of section 409A of the Code and such amounts are payable to the Participant upon "separation from service" (within the meaning of section 409A(a)(2)(a)(i) of the Code and its corresponding regulations) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all payments to the Participant pursuant to this Agreement shall be postponed for a period of six months following the Participant's separation from service from the Employer. The postponed amounts shall be paid to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer, and any amounts payable to the Participant after the expiration of such six (6) month period under this Agreement shall continue to be paid to the Participant in accordance

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with the terms of this Agreement. If the Participant dies during such six-month period and prior to the payment of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be paid to the personal representative of the Participant's estate within sixty (60) days after the Company receives notice of the Participant's death, and any amounts not delayed shall be paid to the personal representative of the Participant's estate in accordance with the terms of this Agreement.

*[SIGNATURE PAGE FOLLOWS]*

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IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: \_\_\_\_\_  
\_\_\_\_\_

Its: \_\_\_\_\_  
\_\_\_\_\_

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EX-10.30 6 dex1030.htm 2007 OMNIBUS SECOND RESTRICTED STOCK UNIT  
FORM - ML4 EMPLOYEES

Exhibit 10.30

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of \_\_\_\_\_ (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined to grant the Participant an equity award (the "Equity Award") for shares of Common Stock of the Company, par value \$0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a restricted stock unit grant; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such restricted stock unit shall be memorialized in this Grant.

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ units (the "Restricted Stock Units"). Each unit (a "Unit") shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).
2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the "Restricted Stock Unit Account") for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.
3. Vesting.

(a) Except as provided in subparagraphs (b), (c), (d) or (e) below, the Restricted Stock Units shall become vested on January 1, 2011 (the "Service Date"), provided the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the Service Date.

(b) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Restricted Stock Units shall fully vest on the date of the Participant's termination of employment or service with the Employer on account of death or Total Disability. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of Normal Retirement (as defined below), the Participant shall vest in a pro rata portion of the Restricted Stock Unit on the date of the Participant's termination of employment or service with the Employer on account of Normal Retirement. The pro rated portion that shall vest shall be determined by taking the total number of Units subject to the Restricted Stock Unit, multiplied by a fraction, the numerator of which is the number of whole months that the Participant was employed by, or providing service to, the Employer from January 1, 2008 to the date on which the Participant's employment or service terminated on account of Normal Retirement (with the month in which the Participant terminating counting as a full month) and the denominator of which is thirty-six (36). Any portion of the Restricted Stock Unit that does not become vested as described above shall be forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained age 62 and been employed or provided service with the Employer for at least five (5) years.

(d) If at any time prior to the Service Date the Participant's employment or service with the Employer terminates for any reason other than death, Total Disability or Normal Retirement, all of the Units subject to the Restricted Stock Unit shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(e) If at any time prior to the Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, then the Restricted Stock Unit shall become vested on the date of the Change of Control. For purposes of this Agreement, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(f) The date on which all or any portion of the Restricted Stock Unit becomes vested as described in this Paragraph 3 shall hereinafter be referred to as the "Vesting Date".

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units shall be redeemed by the Company on the Vesting Date or as soon as administratively practicable thereafter, but not later than thirty (30) days following the Vesting Date, (the "Redemption Date"). On the Redemption Date (or, if applicable, the Deferred Date,

as defined in Paragraph 5 below), all Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution of such shares of Company Stock, which shall be issued under the Plan. Notwithstanding the foregoing, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Redemption Date for the Restricted Stock Units shall not be on the occurrence of the Change of Control, but instead shall be the original Vesting Date, as if no Change of Control occurred, or, if elected, the Deferred Date (as defined below). All redemptions pursuant to this Paragraph 4 shall be deemed as a separate payment for purposes of section 409A of the Code.

#### 5. Deferrals.

(a) No later than December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date of any portion of, or all of, the Restricted Stock Units that vest, to a date that occurs after the Redemption Date by completing the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit B or as subsequently modified to comply with the requirements of section 409A of the Code; provided, however, that if the Redemption Date occurs at any time during the 2008 calendar year, the Participant's deferral election pursuant to this Paragraph 5(a) shall not become effective. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(b) After December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit A or as subsequently modified to comply with the requirements of section 409A of the Code. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(c) If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date." All redemptions pursuant to this Paragraph 5 shall be deemed as a separate payment for purposes of section 409A of the Code.

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the

Participant's Restricted Stock Unit Account at the time of the declaration of the dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends created to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account. Each cash payment pursuant to this Paragraph 6 shall be deemed as a separate payment for purposes of section 409A of the Code.

7. Change of Control. Except as set forth in Paragraph 3(e) of this Grant, the provisions set forth in the Plan applicable to a Change of Control shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may

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be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares.

10. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

11. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

12. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

13. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

14. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption/distribution of the Restricted Stock Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units shall be satisfied by having shares of Company Stock withheld, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

15. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

16. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

17. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

18. Section 409A of the Code.

(a) As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted to avoid any penalty sanctions under section 409A of the Code. If any redemption or distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such redemption or distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Notwithstanding anything herein to the contrary, the Committee may, without the Participant's consent, amend this Grant or any election by a Participant to comply with the requirements of section 409A of the Code to the extent the Committee determines, in the sole discretion, that such amendments are necessary.

(b) Notwithstanding any provision to the contrary in this Agreement, if any of the payments under this Agreement are deemed as deferred compensation subject to the requirements of section 409A of the Code and such amounts are payable to the Participant upon "separation from service" (within the meaning of section 409A(a)(2)(a)(i) of the Code and its corresponding regulations) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all payments to the Participant pursuant to this Agreement shall be postponed for a period of six months following the Participant's separation from service from the Employer. The postponed amounts shall be paid to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer, and any amounts payable to the Participant after the expiration of such six (6) month period under this Agreement shall continue to be paid to the Participant in accordance with the terms of this Agreement. If the Participant dies during such six-month period and prior to the payment of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be paid to the personal representative of the Participant's estate within

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sixty (60) days after the Company receives notice of the Participant's death, and any amounts not delayed shall be paid to the personal representative of the Participant's estate in accordance with the terms of this Agreement.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

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AMERICAN WATER

American Water Works Company, Inc.

# **2009 Equity Award Brochure for Employees**

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*This guide provides an overview of your 2009 Equity Awards granted to you under the American Water Works Company, Inc. (American Water) 2007 Omnibus Equity Compensation Plan. The Equity Award — a key component of your American Water compensation package — promotes the achievement of the Company’s long-term, strategic business objectives. Read this guide to learn about Equity Awards and how they reward you for contributing to American Water’s financial success.*

**Equity Award Highlights**

- Certain American Water employees are eligible for Equity Award grants. This brochure applies to ML1 to L05 employees.
- Each grant is a combination of 50% non-qualified stock options (stock options) and 50% performance stock units (PSUs).
- Options vest 33.3% each on January 1, 2010, January 1, 2011 and January 1, 2012.
  - Once vested, you may purchase (or “exercise”) your options.
  - An option’s value is the difference between (a) the exercise price, versus (b) the market price of American Water’s stock at the time you exercise the option.
  - Options expire December 31, 2015.
- You earn a right to your PSU award in three installments (33.3% each installment) on January 1 of 2010, 2011 and 2012.
  - Awards are distributed in early 2012, based on company performance over the three-year performance period

**AN OVERVIEW OF THE EQUITY AWARD**

You have been granted a 2009 Equity Award in connection with American Water common stock. Your award is determined by the American Water Board of Directors Compensation Committee (“the Committee”) and based on management level.

**The Amount of Your Award Grant**

Your award grant amount is based on a percentage of your base salary, granted in the form of equity in the Company: 50% of the value in stock options and 50% of the value in PSUs.

The following illustrates a possible award under the 2009 grant for an employee.

<b>Assumptions</b>	<b>2009 Grant</b>
■ Dollar Value	\$30,000
■ Option value	\$4.00 per share
■ PSU value	\$21.00 per share

<b>2009 Award Grant</b>	
■ Total dollar value	<b>\$30,015</b>
— Number of options (dollar value)	3,750 options (\$15,000)
— Number of PSUs (dollar value)	715 PSUs (\$15,015)

**NOTE: All values shown are illustrative only.**

## An Award Based on American Water's Success

As a publicly-held company, American Water has a responsibility to its shareholders to drive long-term success and increase the value of American Water stock.

The Equity Award provides opportunities for rewards based on long-term performance, and allows you to share in our success. The 2009 award includes a performance-based stock component, which awards shares based on American Water's Total Shareholder Return (TSR) ranking among peer companies in the Dow Jones Utilities Index. This new design aligns more closely with the market and helps keep American Water competitive with our peers in the utilities industry.

**REMINDER: All employees and directors are subject to the Company's Insider Trading Policy. Before exercising any options you must review the Company's Insider Trading Policy. In addition, under the Insider Trading Policy, certain persons (Section 16 and Restricted Individuals) are subject to more extensive requirements, including the affirmative obligation to "pre-clear" any proposed purchase or sale of Company securities with the CFO, General Counsel, or inside SEC Counsel.**

If you have any questions about the Insider Trading Policy and pre-clearance process, please call Securities Paralegal (856-346-8257) or SEC Counsel (856-309-4589).

## ABOUT OPTIONS AND PERFORMANCE STOCK UNITS

*The following sections describe how the options and PSUs granted to you vest and are distributed.*

### Stock Options

- *50% of Equity Award*
- *Exercise price is the closing price on the date of grant*
- *Options vest 33.3% each on January 1 of 2010, 2011 and 2012. Options are 100% vested as of January 1, 2012.*

**A stock option is your right to purchase a share of American Water stock at the exercise price, once vested, for a set period of time.**

A stock option gives you the right to purchase a share of American Water stock at an "exercise price" for a set period of time.

The number of options you are granted is based on the monetary value of your option award and the **Black-Scholes value** for an option on the date of the grant.

### Vesting

Your options vest 33.3% each on January 1 of 2010, 2011 and 2012. You may purchase (or "exercise") your options, once they are vested, until their December 31, 2015 expiration date. You forfeit all rights to the options if you do not take action by the expiration date.

Grant Date	Percent Vested						
	Jan 1, 2010	Jan 1, 2011	Jan 1, 2012	Jan 1, 2013	Jan 1, 2014	Jan 1, 2015	Dec. 31, 2015
Feb 2009	33.3%						Options Expire
		33.3%					
			33.3%				

### ***The Value of Your Options***

The value of your options depends on American Water's stock performance in the future. This means they may or may not have value at the time they expire. The greater the increase in American Water's market price, the greater the value of your award.

The value you receive is the difference between (a) the exercise price, and (b) the market price of the stock at the time you exercise your options.

You will benefit if the market price of American Water's stock at exercise is *greater* than its exercise price on the date of the grant. However, if the market price at exercise is *lower* than the exercise price, you will not obtain any value from exercising the option.

### ***Exercising Your Options***

You may choose to exercise all or a portion of your vested stock options before the exercise period ends on December 31, 2015. When you are ready to exercise your options, contact E\*TRADE at **www.etrade.com** or at 1-800-838-0908. (See "Managing Your 2009 Equity Award" on page 7 for more information.)

You may exercise your options using any of the following methods:

1. **Cash.** You can exercise your options and buy the shares with money from personal funds to cover the exercise price, taxes and transaction fees.
2. **Exercise and sell.** You can exercise your options by either (a) selling just enough stock to cover the exercise price, taxes and transaction fees; **or** (b) selling additional shares to cover the exercise price, taxes and fees *and* receive the net proceeds in cash.
3. **Stock swap.** You can instruct E\*TRADE to use shares of American Water common stock you currently own to fund the exercise of your stock options, provided that it is approved by the Committee.

*Example*

Let's assume you are awarded 3,750 stock options							
<ul style="list-style-type: none"> <li>■ The options vest in three installments: 33.3% each on January 1 of 2010, 2011 and 2012.</li> <li>■ You exercise the first vested installment on June 1, 2011 (market price = \$23 per share), the second vested installment on April 1, 2014 (market price = \$26 per share) and the third vested installment on July 1, 2015 (market price = \$30 per share).</li> </ul>							
Options Awarded in 2009	Number of Options Vested	Vesting Date	Exercise Date	Future Value When You Exercise your Options <sup>1</sup>	Amount You Pay to Exercise Options	Fees Charged <sup>2</sup>	Your Pre-tax Gain at Exercise
3,750	1,250	Jan. 1, 2010	June 1, 2011	\$28,750 (1,250×\$23)	\$26,250 (1,250×\$21.00)	Determined by E*TRADE	\$2,500
	1,250	Jan. 1, 2011	Apr. 1, 2014	\$32,500 (1,250×\$26)	\$26,250 (1,250×\$21.00)	Determined by E*TRADE	\$6,250
	1,250	Jan. 1, 2012	July 1, 2015	\$37,500 (1,250×\$30)	\$26,250 (1,250×\$21.00)	Determined by E*TRADE	\$11,250

<sup>1</sup> You can exercise your vested options until December 31, 2015, subject to employment requirements as defined by the plan.

<sup>2</sup> Costs and fees associated with exercising your stock options will be determined by E\*TRADE.

**Performance Stock Units**

- *50% of Equity Award*
- *You earn a right to your PSUs in three installments (33.3% each) on January 1 of 2010, 2011 and 2012. Awarded shares are determined based on Company performance and paid in early 2012*
- *Actual awards may range from 0% to 150% of target based on performance*

**A Performance Stock Unit** is an award that represents a “notional” share of American Water stock.

A PSU gives you the right to receive one share of American Water common stock without paying an exercise price. So, you benefit by receiving actual shares of American Water stock — after the end of the three-year performance period.

Unlike stock options, which are valued based on the *appreciation* of the stock after the grant date, PSUs represent the *total value* of the stock at the time you earn a right to receive it. This means that PSUs have value even if the stock price falls after the date you receive your award.

You earn a right to your PSUs in three installments (33.3% each) on January 1, 2010, January 1, 2011, and January 1, 2012. However, your shares are not awarded to you until after the three-year performance period ends on January 1, 2012. The number of shares that are actually awarded depends on Company performance against specific metrics (see “Measuring Company Performance” on page 5).

Grant Date	Percent of PSUs Earned			
	Jan 1, 2010	Jan 1, 2011	Jan 1, 2012	Early 2012 ( before March 15)
Feb 2009	33.3%	33.3%	33.3%	Company performance measured; PSUs distributed

During the performance period, you do not actually own the shares, which means you do not have voting rights and you cannot sell or transfer the units. If dividends are paid during the performance period, those dividends will accrue in a “notional” personal account until the end of the performance

period. You will then be paid in cash for any accrued dividends at the end of the performance period based on the number of PSUs earned.

After the end of the three-year performance period, you can hold or sell your shares — the choice is yours. Unlike options, the shares never expire so there is no time limit associated with them. If you choose to sell the shares, you will receive the current market price at the time of sale.

### Measuring Company Performance

The number of PSUs awarded to you depends on Company performance.

To determine the final PSU payout at the end of the three-year performance period, the Company uses American Water’s rank on Total Shareholder Return (TSR) relative to companies in the Dow Jones Utilities Index.

The Company’s TSR performance is assessed using a percentile ranking approach, as follows:

American Water’s Rank on TSR Relative to the Dow Jones Utilities Index	Payout Factor
35 <sup>th</sup> Percentile	50%
65 <sup>th</sup> Percentile	100%
80 <sup>th</sup> Percentile	150%

TSR is calculated as:

$$\frac{\text{Change in share price over the three-year performance period} + \text{Dividends paid over the three-year period}}{\text{American Water’s average share price at the beginning of the period}}$$

### Example

Let’s assume you receive 715 PSUs on the grant date.				
<ul style="list-style-type: none"> <li>■ The PSUs are earned in three installments: 33.3% each on January 1, of 2010, 2011 and 2012. They are 100% vested as of January 1, 2012.</li> <li>■ At the end of the three-year performance period, American Water’s TSR performance is ranked at the 65<sup>th</sup> percentile relative to the Dow Jones Utilities Index</li> </ul>				
Total PSUs Granted in 2009	Number of PSUs Vested	Date Earned	TSR Percentile Ranking Relative To Dow Jones Utilities Index At End of Three-Year Performance Period	Total Shares Awarded at end of Three-Year Performance Period
715	238	Jan. 1, 2010	65 <sup>th</sup> percentile	715
	238	Jan. 1, 2011		
	239	Jan. 1, 2012		

If you decide to sell your awarded shares and the market price at the time of sale is \$30 per share, you would receive \$21,450 from the sale — minus taxes and applicable fees.

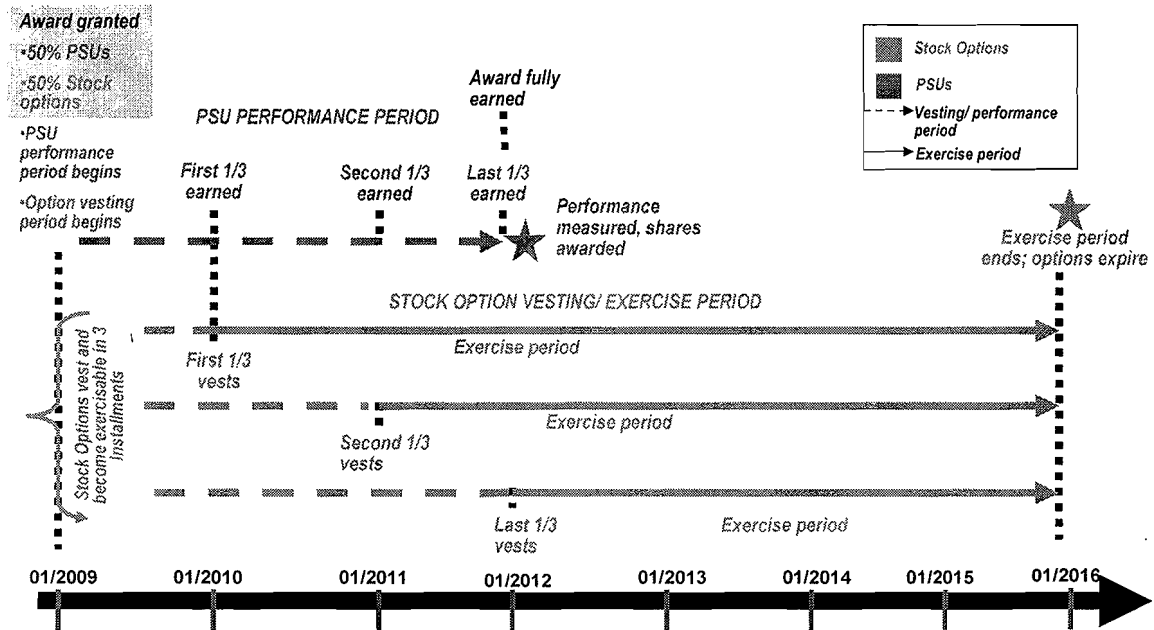
### Deferring Your Awarded Shares

You may elect to defer receiving all or a portion of your awarded shares until after the scheduled distribution date, provided you make the election by December 31, 2010.

See your PSU grant agreement for details.

### Timing and Distribution of Award

The following is a timeline of key events for the stock option and PSU components of your grant:



### Driving Shareholder Value

As an American Water management employee and shareholder, you not only have the ability to influence our day-to-day performance, you also share in the long-term rewards of American Water's success if the value of your shares appreciates. Of course there is no guarantee that the value of the shares you own will appreciate. Depreciation in value is possible as well.

You can make a difference. Think about the activities you perform on a day-to-day basis and consider how you can improve quality, delivery and service or reduce operational costs. Your contributions can help generate results that lead to significant rewards for you, and success for American Water.



## TAXATION OF EQUITY AWARDS

### How Options are Taxed

Options are not taxed until you exercise them and/or sell the stock after an increase in value.

- **At exercise.** When you exercise your options (regardless of whether you sell the stock you receive), you will owe ordinary income tax on the difference between the market price on the date of grant and the market price of American Water's stock at the time you exercise. Your tax liability is reported to the Internal Revenue Service by American Water payroll. This means that in the example on page 4, you would owe taxes on \$2,500\* for the 2011 tax year, \$6,250\* for the 2014 tax year and \$11,250\* for the 2015 tax year.

*\*Your pre-tax gain at exercise.*

- **At sale of the shares.** If you exercise your options, hold the stock for a period of time then later sell the stock at a higher price than what you paid for it, you will owe capital gains tax. This tax will be assessed on any *additional* appreciation on the market price of American Water's stock between the time of exercise and the time of sale. (Note that these taxes are not reported to the Internal Revenue Service by American Water, and that these taxes are in addition to the ordinary income taxes incurred at each option exercise.)

**Consult your personal tax advisor to learn more about your tax situation.**

### How PSUs are Taxed

You will not be responsible for any taxes when the PSUs are granted. However, you will owe ordinary income tax, payable if earned based on performance, on the full value of the shares at the end of the three-year performance period (unless the PSUs are deferred). American Water will withhold a portion of your earned shares to cover the minimum required withholding for Federal (including FICA), state, local and other tax liabilities. See your PSU grant agreement for details.

If you hold the shares received, you will owe capital gains tax for any additional share price appreciation between the market price on the date the shares are received and the market price on the date of the sale.

**Consult your personal tax advisor to learn more about your tax situation.**

## MANAGING YOUR 2009 EQUITY AWARD

E\*TRADE is the record keeper for the American Water Equity Awards. When you receive an Equity Award grant, an Equity Award account is established on your behalf through E\*TRADE. You can manage your account online through [www.etrade.com](http://www.etrade.com), or by phone at 1-800-838-0908.

### Activating Your E\*TRADE Account

Employees who received a prior equity award will be able to access the 2009 award using your existing E\*TRADE account. If this is your first year receiving an Equity Award, you will first need to activate your E\*TRADE account in order to access it. You will receive a packet of materials from E\*TRADE with instructions on how to activate your account. **If you do not activate your E\*TRADE account, you will not be able to access or manage your Equity Awards.**

Once you've activated your account, go to [www.etrade.com](http://www.etrade.com) (or call E\*TRADE at 1-800-838-0908) to track vesting, conduct transactions and model the long-term value of your awards.

## TERMINATION PROVISIONS

If you leave American Water due to ...	Then...
Death or total disability	<ul style="list-style-type: none"> <li>■ <b>With respect to stock options:</b> Your unvested award becomes 100% vested.</li> <li>■ <b>With respect to PSUs:</b> You or your beneficiaries are entitled to receive only the shares that you earned before the date of your death or disability. Those shares will be distributed at the end of the three-year performance period.</li> </ul>
Voluntary or involuntary resignation, or termination for cause (including normal and/or early retirement)	<ul style="list-style-type: none"> <li>■ You forfeit your unvested options and unearned PSUs.</li> </ul>
<b>Change In Control (CIC)</b>	
<ul style="list-style-type: none"> <li>■ Unvested options become 100% vested; and you earn the right to any previously unearned PSUs.</li> </ul>	

## FOR MORE INFORMATION

If you still have questions about the American Water Equity Awards, contact:

Resource	Contact Information
Debbie Krauss-Kelleher	856-346-8295
Dan Shallow	856-346-8285
E*TRADE	1-800-838-0908 www.etrade.com

## GENERAL QUESTIONS AND ANSWERS

Question	Answer
Who is eligible for Equity Awards?	Certain employees are eligible for Equity Award grants. This brochure applies to ML1-L05 employees.
How do I exercise my stock options?	Contact E*TRADE at <a href="http://www.etrade.com">www.etrade.com</a> or 1-800-838-0908 for information on exercising your stock options.
When will I receive the shares earned under my PSU grant?	Although you earn your PSUs in three installments of 33.3% each on January 1 of 2010, 2011 and 2012, you will not receive any of your earned shares until the end of the three-year performance period (provided threshold performance levels for the performance period have been achieved).
Can I give my Equity Award to another person?	No. Your awards are granted to you and they cannot be transferred to another individual.
What does it mean to own a share of American Water stock?	Owning a share means you own a part of American Water. This means that you have voting rights and receive dividends along with other shareholders.

**GLOSSARY OF TERMS**

<b>Term</b>	<b>Definition</b>
<b>Black-Scholes Valuation</b>	An internationally-recognized mathematical valuation model used to value stock options, which incorporates various types of inputs (such as the stock volatility and interest rates). We use this formula to establish the value of option grants. The use of this model for this purpose is consistent with standard market practice.
<b>Board</b>	The Board of Directors of American Water Works Company.
<b>Common Stock</b>	Units of ownership of a corporation.
<b>Equity</b>	Awards that are linked to American Water's share price.
<b>Exercise</b>	The transaction in which you sell your vested options to buy shares of American Water common stock.
<b>Exercise date</b>	The date on which you buy actual shares of American Water common stock at the market price on the date of grant. Following exercise, you may decide to keep or sell the shares.
<b>Exercise period</b>	The period during which you may exercise your vested options under the grant. The exercise period for the 2009 grant ends December 31, 2015.
<b>Exercise price</b>	The fixed price for which an option holder may purchase a single share of American Water common stock after the options become vested.
<b>Grant</b>	The awarding of a specified number of options or Performance Stock Units.
<b>Performance period</b>	The three-year period from January 1, 2009 through December 31, 2011.
<b>Performance Stock Unit</b>	Performance Stock Units (PSUs) are "notional" shares of company stock. At the end of the three-year performance period, PSUs will convert to actual shares of American Water common stock based on Company performance. Their value will depend on the market value of the stock at that time.
<b>PSU grant agreement</b>	Your American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Performance Stock Unit Grant agreement.
<b>Market price</b>	The price at which American Water shares trade on the stock market.
<b>Stock option</b>	Your right to purchase shares of American Water stock at the exercise price, on or after vesting, for a period of four years — provided Company performance metrics are achieved and you continue to be employed by American Water.
<b>Stock option grant agreement</b>	Your American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Nonqualified Stock Option Grant agreement.
<b>Total disability</b>	You are considered to have a "total disability" as determined by the Social Security Administration.

Term	Definition
Total Shareholder Return (TSR)	<p>TSR equals:</p> <p style="text-align: center;">Change in share price over the three-year performance period; PLUS Dividends paid over the three-year period; DIVIDED BY The share price at the beginning of the period.*</p> <p><i>*American Water uses an average stock price at the beginning and end of the performance period to calculate TSR.</i></p>
Vesting	Becoming entitled to all or a portion of an Equity Award.
Vesting period (Referred to as the "Service Date" in the grant agreements)	<ul style="list-style-type: none"> <li>■ <i>With respect to stock options</i>, the period of time that must elapse before options can be used to buy shares of American Water common stock.*</li> <li>■ <i>With respect to Performance Stock Units (PSUs)</i>, the period of time that must elapse before you have earned the right to the PSUs.* The PSUs will not be converted into shares and distributed until the end of the three-year performance period (if earned based on performance).</li> </ul> <p><i>*Provided you continue to be employed by American Water.</i></p>

**REMINDER: All employees and directors are subject to the Company's Insider Trading Policy. Before selling (or buying) any Company securities you must review the Company's Insider Trading Policy. In addition, under the Insider Trading Policy, certain persons (Section 16 and Restricted Individuals) are subject to more extensive requirements, including the affirmative obligation to "pre-clear" any proposed purchase or sale of Company securities with the CFO, General Counsel, or inside SEC Counsel.**

**If you have any questions about the Insider Trading Policy and pre-clearance process, please call Securities Paralegal (856-346-8257) or SEC Counsel (856-309-4589).**

The discussion of certain federal income tax effects in this brochure is a summary only. Please refer to the Internal Revenue Code for a complete statement of all relevant federal tax provisions. We recommend that holders of American Water stock options and/or Performance Share Units consult their tax advisor.

The Company's policies, procedures and benefits, including (without limitation) those covered in this brochure, as well as wages and all other terms and conditions of employment, are subject to change, revision or deletion by the Company at any time. This may be done without consulting or obtaining agreement from anyone.

This brochure is intended to provide a summary of your American Water Equity Awards. All Equity Awards are subject to the terms and conditions of the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the Equity Award grant agreements under which they are issued. In the event of any conflict between the terms of your Equity Award grant agreements, the Plan and this brochure, the terms of the grant agreements and the Plan will govern.

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of February \_\_, 2009 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2009 long-term incentive program ("2009 LTIP") pursuant to which designated employees will be granted equity awards (the "Equity Award") for shares of Common Stock of the Company, par value \$0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a performance stock unit grant;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2009 LTIP and to grant the Participant an Equity Award under the 2009 LTIP; and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Equity Award granted to the Participant pursuant to the 2009 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such nonqualified stock option shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the "Option") to purchase \_\_\_\_\_ shares of Company Stock, at an exercise price of \$ \_\_\_\_\_ per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b) or (c) below, the Option shall become exercisable on the following dates, if the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable date:

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
January 1, 2010	1/3
January 1, 2011	1/3
January 1, 2012	1/3

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Company Stock subject to the Option. If the foregoing schedule would produce fractional shares of Company Stock, the number of shares of Company Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Company Stock. The Option shall become fully exercisable on January 1, 2012, if the Participant is employed by, or providing service to, the Employer on such date.

(b) If at any time prior to the date the Participant's Option becomes exercisable as described in subparagraph (a) above, the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Option shall become fully exercisable on the date of the Participant's termination of employment or service with the Employer on account of death or Total Disability. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If a Change of Control (as defined in the Plan) occurs while the Participant is employed by or providing service to the Employer, then the Option shall become fully exercisable as of the date of the Change of Control.

### 3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2015, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates on account of death or Total Disability, the expiration of the one year period following the date of the Participant's termination of employment or service on account of death or Total Disability.

(ii) If the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), the expiration of the one year period following the date of the Participant's termination on employment or service on account of Normal Retirement. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained both (A) at least age 55, and (B) total years of employment and service with the Employer equals or exceeds 10.

(iii) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), Normal Retirement, death or Total Disability, the expiration of the ninety (90) day period following the date of the Participant's termination of employment or service for any reason other than on account of termination for Cause, death, Total Disability or Normal Retirement.

(iv) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 2015. Any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

#### 4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the

Option after the Participant's death) represent that the Participant is purchasing the shares of Company Stock for the Participant's own account and not with a view to or for sale in connection with any distribution of the shares of Company Stock, or such other representation as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set forth in Paragraph 2(c) of this Grant, the provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which is incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees to be bound by the terms of the Plan and the Grant and that all decisions and determinations of the Committee with respect to the Grant shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year



that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that 50% of the shares of Company Stock obtained by the Participant upon the exercise of the Option shall not be tradeable until the Participant terminates employment or service with the Employer.

9. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

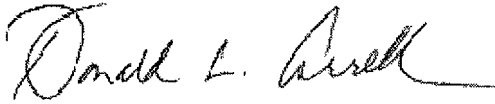
14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

*[SIGNATURE PAGE FOLLOWS]*

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Donald L. Correll

A handwritten signature in black ink that reads "Donald L. Correll". The signature is written in a cursive style with a long horizontal flourish at the end.

Its: President and CEO

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN

PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of \_\_\_\_\_ (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to \_\_\_\_\_ (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2009 long-term incentive program (“2009 LTIP”) pursuant to which designated employees will be granted equity awards (the “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share, (the “Company Stock”);

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a performance stock unit grant;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2009 LTIP and to grant the Participant an Equity Award under the 2009 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2009 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the “Plan”) and the terms and conditions of such performance stock unit shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ performance stock units (the “Performance Units”). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the performance goals and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the performance goals described in Paragraph 3 below (the “Target Award”).
2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the “Performance Unit Account”) for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific

assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals described in subparagraph (b) below for the Performance Period and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company's Total Stockholder Return ("TSR") will be compared to the return of the Dow Jones Utility Index (the "Index") over the Performance Period. The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company's TSR relative to the performance of the Index, as set forth below. No Performance Units will be earned if the Company's TSR relative to the Index is below the threshold level.

<u>Level of Achievement</u>	<u>Percentile Ranking Relative to Index</u>	<u>Percentage of Target Award Earned</u>
<i>Maximum</i>	80%	150%
<i>Target</i>	65%	100%
<i>Threshold</i>	35%	50%

If actual performance is between measuring points, the number of Performance Units the Participant earns will be interpolated.

(c) TSR represents Company Stock price performance and dividend accumulation over the Performance Period. For purposes of this calculation, the initial Company Stock price and the ending Company Stock price are determined using the 30-day average Company Stock price for the first December 31 and the last December 31 of the Performance Period, as applicable. The 30-day average Company Stock price is the average of the daily closing Company Stock prices for the 15 trading days before and after the applicable December 31. To determine Company Stock price performance, a dividend adjustment factor will be determined. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in Company Stock price by reason of deeming the dividend to be reinvested in the Company Stock. TSR is determined by adjusting the ending Company Stock price as determined above by the dividend adjustment factor and comparing it to the initial Company Stock price. The initial Company Stock price is \$\_\_\_\_\_ per share.

(d) At the end of the Performance Period, the Committee will determine whether and to what extent the performance goals have been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the target level as of the date of the Change of Control (the "Change of Control Date"). For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(f) For purposes of this Grant, the term "Performance Period" shall mean the three-year period beginning on January 1, 2009 and ending December 31, 2011.

#### 4. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the performance goals and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2010, but prior to January 1, 2011; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2011, but prior to January 1, 2012; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 1, 2012. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the performance goals. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between

the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned within seventy (70) days following the earlier of (i) January 1, 2012 (the "Distribution Date"), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the performance goals will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant and complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit A or as may subsequently modified in the discretion of the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account at the time of the declaration of the dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4

above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and



(ii) that 50% of the shares of Company Stock earned by the Participant upon the distribution of the Performance Units pursuant to this Grant shall not be tradable until the Participant terminates employment or service with the Employer.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant shall be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

19. Section 409A of the Code.

(a) As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant designate the calendar year of distribution.

(b) Notwithstanding any provision to the contrary in this Grant, if any of the distributions under this Grant constitute deferred compensation subject to the requirements of section 409A of the Code and such amounts are payable to the Participant upon "separation from service" (within the meaning of section 409A(a)(2)(a)(i) of the Code and its corresponding regulations) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all distributions to the Participant pursuant to this Grant shall be postponed for a period of six (6) months following the Participant's separation from service from the Employer. The postponed amounts shall be distributed to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer, and any amounts distributable to the Participant after the expiration of such six (6) month period under this Grant shall continue to be distributed to the Participant in accordance with the terms of this Grant. If the Participant dies during such six-month period and prior to the distribution of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be distributed to the personal representative of the Participant's estate within sixty (60) days after the date of the Participant's death, and any amounts not delayed shall

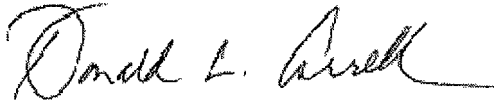
be distributed to the personal representative of the Participant's estate in accordance with the terms of this Grant.

*[SIGNATURE PAGE FOLLOWS]*

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Donald L. Correll

A handwritten signature in black ink, appearing to read "Donald L. Correll". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Its: President and CEO

**EXHIBIT A**

**SUBSEQUENT DEFERRAL ELECTION FORM**

**PART A. TIME OF DISTRIBUTION**

I, \_\_\_\_\_, (the "Participant") hereby irrevocably elect to have all of the Performance Units, plus corresponding dividend equivalents, (the "Deferred Units") that I earn under my Performance Stock Unit Grant, dated as of \_\_\_\_\_, 200\_\_, (the "Grant") under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") that would have been distributed by American Water Works Company, Inc. to me on the Distribution Date (as defined in the Grant), instead be distributed to me on the deferred date designated below (the "Deferred Date"), which date must be at least five (5) years later than the Distribution Date, and this election is at least twelve (12) months prior to the Distribution Date (to make this deferral election you must defer all of the Performance Units you earn under the Agreement, plus corresponding dividend equivalents, meaning there is no partial deferral):

<b>Number of Earned Phantom Units, and Dividend Equivalents, to be Further Deferred (All Must Be Deferred)</b>	<b>Original Distribution Date (Election Must Be Made at Least 12 Months Prior to the <u>Distribution Date</u>)</b>	<b>Deferred Date (Must be a calendar year that is at least five years later than the <u>Original Distribution Date</u>)</b>
100%	January 1, 2012	

**PART B. ACKNOWLEDGMENT**

I understand and expressly agree that (i) the Deferred Date for the Deferred Units shall be the date I specified in Part A above (which is a date that is at least five (5) years later than the original Distribution Date), and (ii) I will not be entitled to receive distribution of the Deferred Units on an earlier date, except in the event the Change of Control Date (as defined in the Grant) occurs prior to the Deferred Date. I also understand and expressly agree that this deferral election is irrevocable, is being made at least twelve (12) months prior to the original Distribution Date, and shall not take effect until twelve (12) months after the date on which I make this election. Lastly, I understand and agree that this deferral election applies to 100% of the Phantom Units, and corresponding dividend equivalents, that I earn under the Grant.

**PARTICIPANT SIGNATURE**

Participant: \_\_\_\_\_

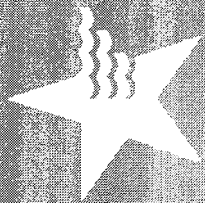
Date: \_\_\_\_\_

Receipt Acknowledged:

By: \_\_\_\_\_

Title: \_\_\_\_\_

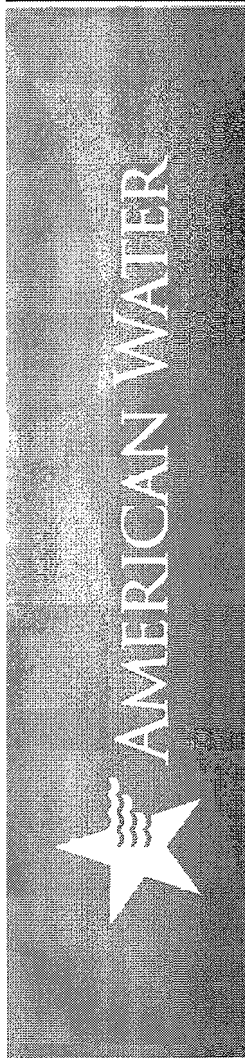
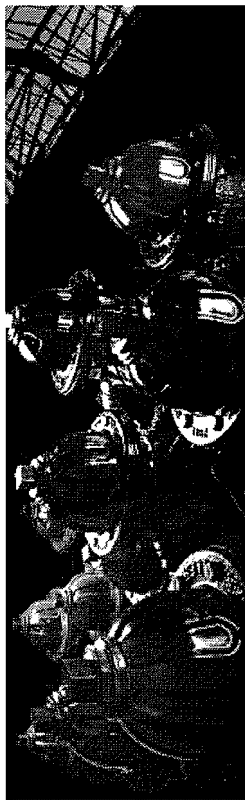
Date: \_\_\_\_\_



AMERICAN WATER

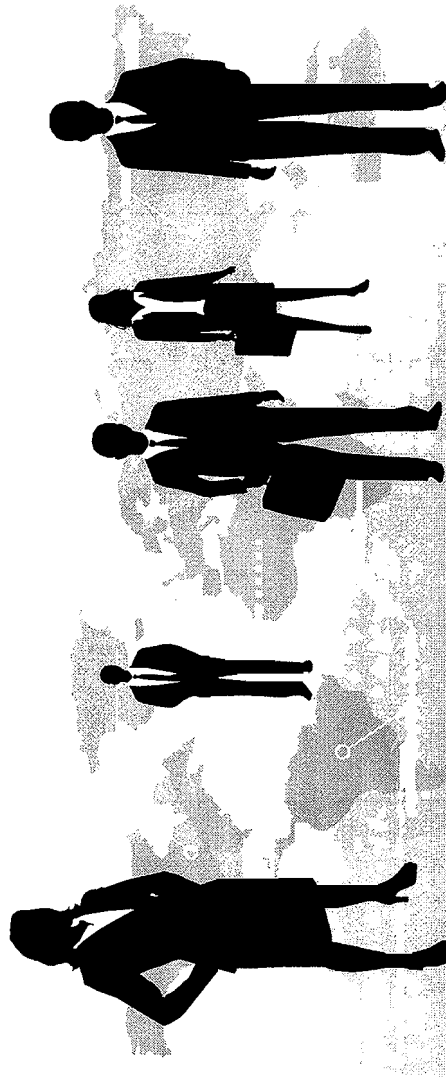
American Water Works Company, Inc.

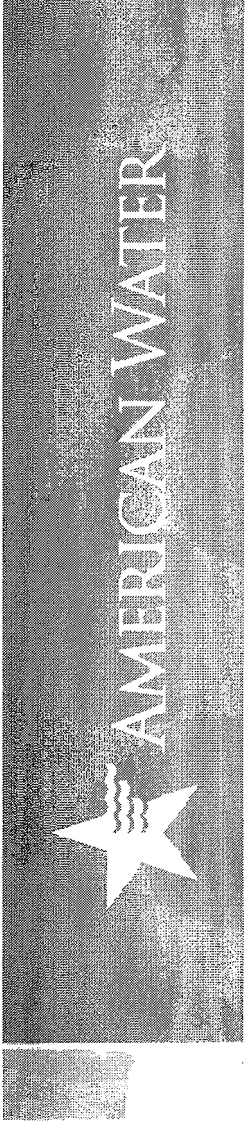
2009 Equity Awards for Employees



## Meeting Agenda

- Review the 2009 American Water Equity Awards
- Provide information about:
  - How this award fits into your total compensation
  - How the award works
- Answer your questions



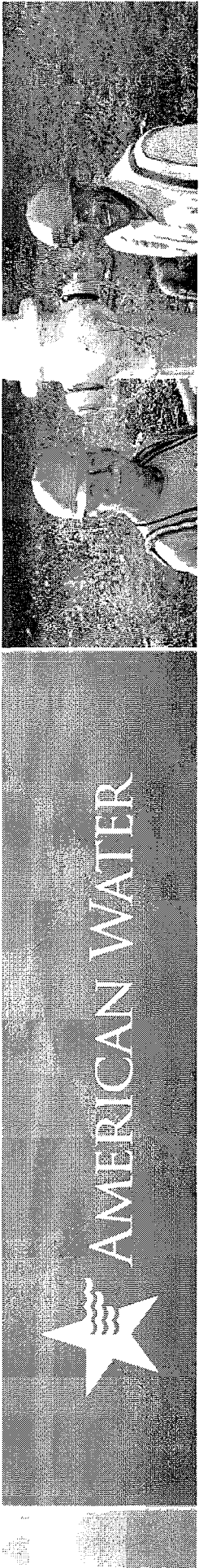


## **Our Leadership Drives Our Success**

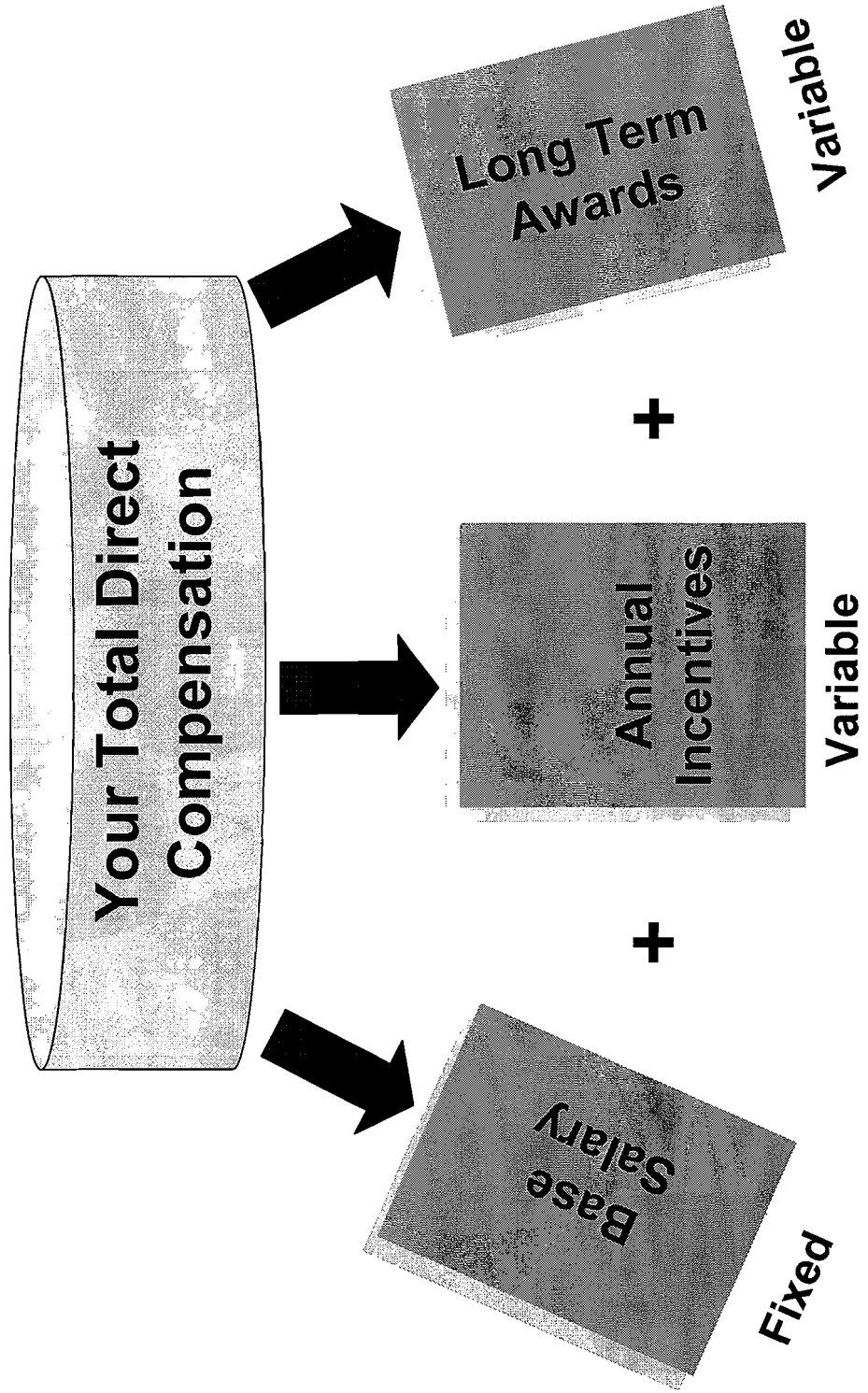
- **As leaders, you hold the key to American Water's success**
  - You drive performance
  - You help deliver financial and strategic gains for our company
- **Benefits of the Equity Award**
  - Strengthens your link to American Water's shareholders
  - Encourages value-creating decisions over time
  - Aligns compensation with our company philosophy







# Your Total Executive Compensation at American Water



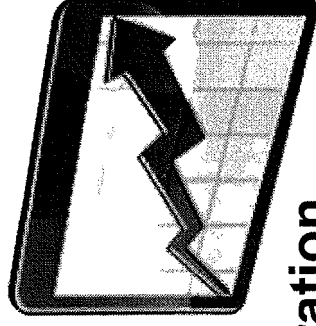


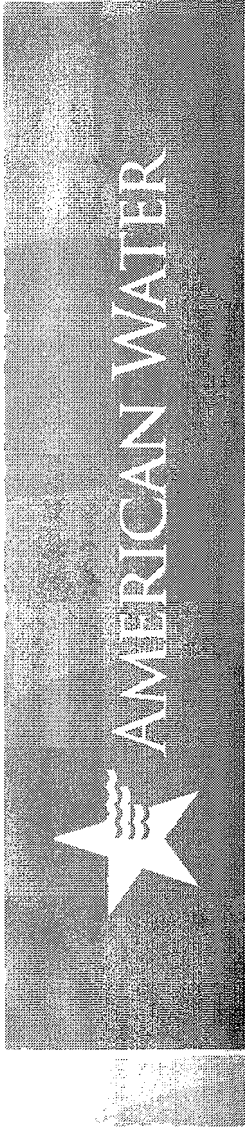
AMERICAN WATER



## Your Equity Award Mix

- **Stock Options are 50% of the award value**
  - Expire Dec. 31, 2015
  - Three equal installments vested on Jan. 1, 2010, Jan. 1, 2011, Jan. 1, 2012
- **Performance Stock Units (PSU) are 50%, no expiration**
  - Earn the right to PSUs in three equal installments of 33.33% each on the same dates as above
  - Shares awarded in early 2012 after three-year performance cycle ends Dec. 31, 2011
  - Number of PSUs rises and falls based on our total shareholder return as it compares to the companies in the Dow Jones U.S. Utilities Index at end of three-year cycle
  - Distribution may be deferred until after the scheduled distribution date provided you make that election by Dec. 31, 2010

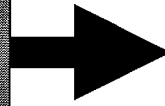




**Let's assume your total equity award value is \$30,000**

**50% Stock Options**

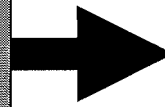
Right to purchase American Water stock at a given price (exercise price) before the end of the option term.



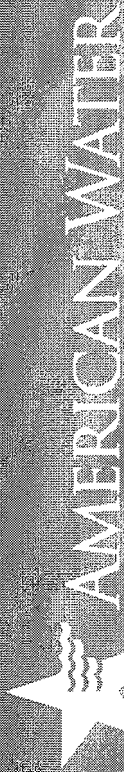
*\$15,000 of the award value will be received as options*

**50% Performance Stock Units (PSU)**

Awards that represent "notional" shares of American Water stock

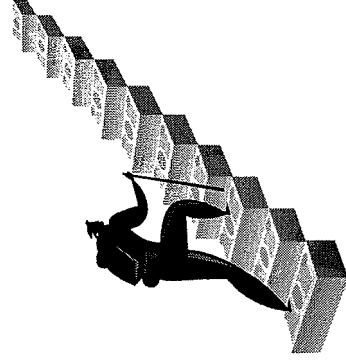


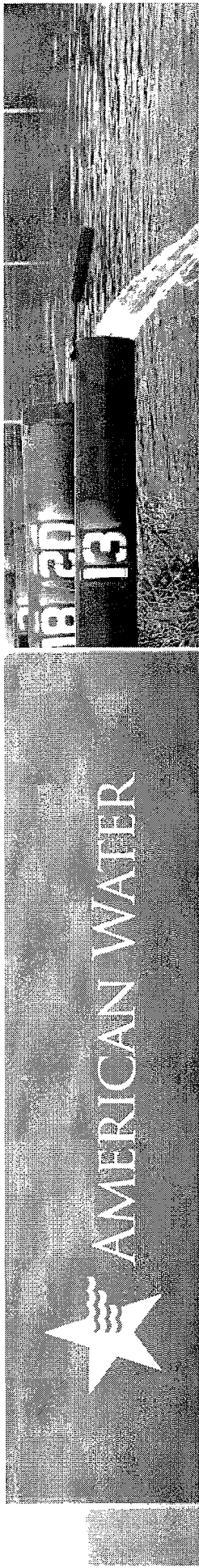
*\$15,000 of the award value will be received as PSUs*



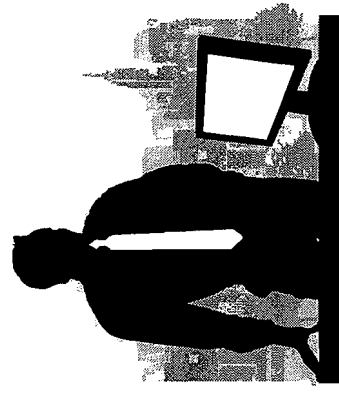
## What Are Options and How Will They Vest?

- Options are the right to purchase company stock at a future date at a predetermined set price (exercise price)
- The greater the increase in the stock price, the greater the value of your award
  - Value is the *difference* in price between the current share price and exercise price when you received the grant
- Options vest in three installments
  - Options vest three equal installments on Jan. 1, 2010, Jan. 1, 2011, Jan. 1, 2012
- Once vested, your options expire on December 31, 2015



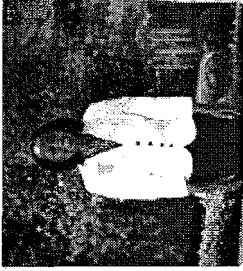
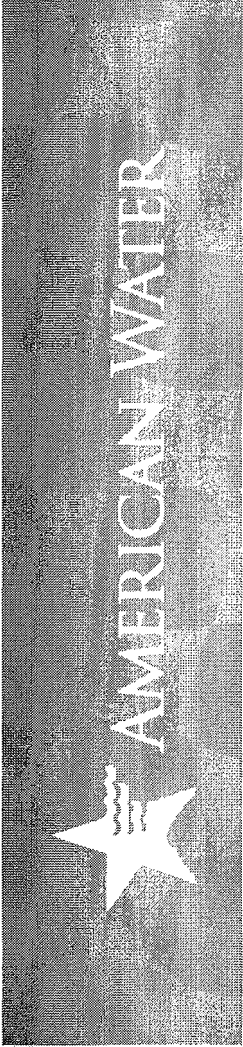


## Exercising your options



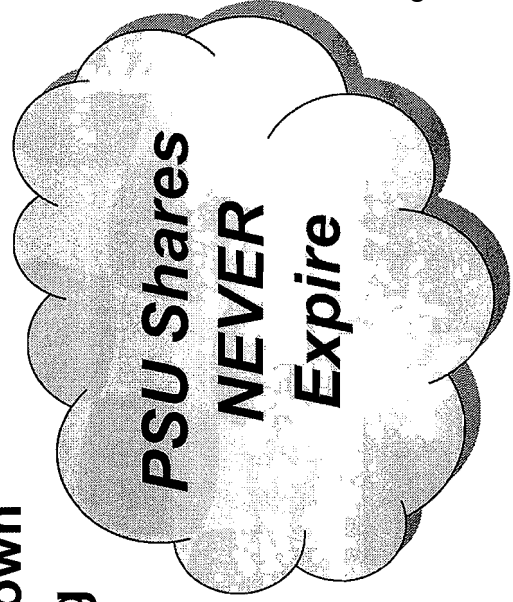
- **Cash**
  - Purchase the stock
  - Use personal funds to cover exercise price, taxes and transaction fees
- **Stock swap**
  - Purchase the stock
  - Sell American Water stock you already own to fund the exercise
- **Exercise and sell – most common method**
  - Purchase the stock
  - Sell only enough to cover exercise price, taxes and transaction fees
  - May also sell additional shares and receive net proceeds in cash

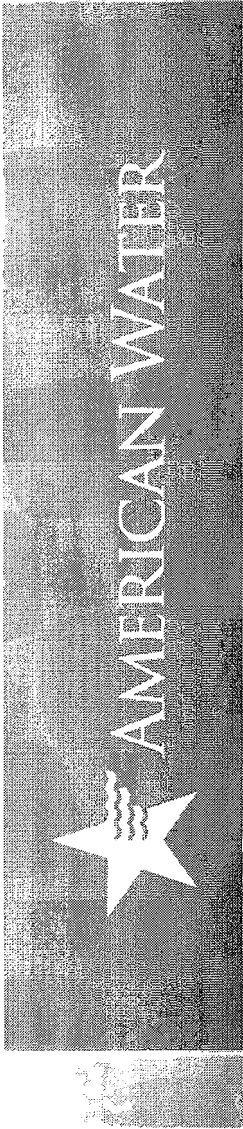
**Before any exercise or sale of stock, all employees are subject to the company's insider trading policy.**



## What are PSUs and How Will They Vest?

- Gives you the right to receive one share of stock without paying an exercise price
- PSUs vest in three equal installments after a period of three years
  - Vested on Jan. 1, 2010, Jan. 1, 2011, Jan. 1, 2012
- “Vesting” means PSUs become shares you own at the stock’s market value at time of vesting
- Unlike options, shares are equal to the full value of American Water’s stock
  - You own the full value of the stock once they vest and performance is determined





## PSUs: You May Be Wondering About...

### Dividends?

- Held in personal account until shares are distributed
- Paid in cash when shares are distributed

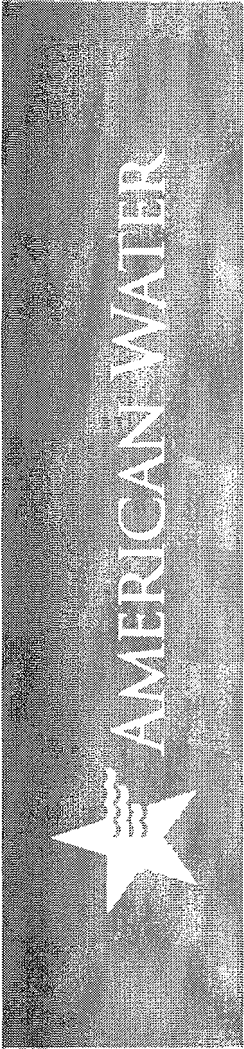
### Sell or transfer units, voting rights?

You can sell\*, transfer PSUs and enjoy voting rights after three-year performance period

### Taxes?

- Taxes are due when shares are distributed
- We will cover more on this a little later

*\*All employees are subject to the company's insider trading policy*

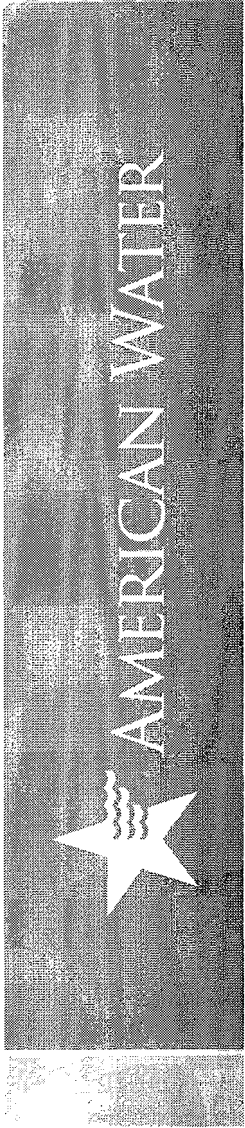


## Measuring Company Performance

- The number of PSUs awarded depends upon American Water's rank on Total Shareholder Return (TSR) relative to companies in the Dow Jones U.S. Utilities Index.

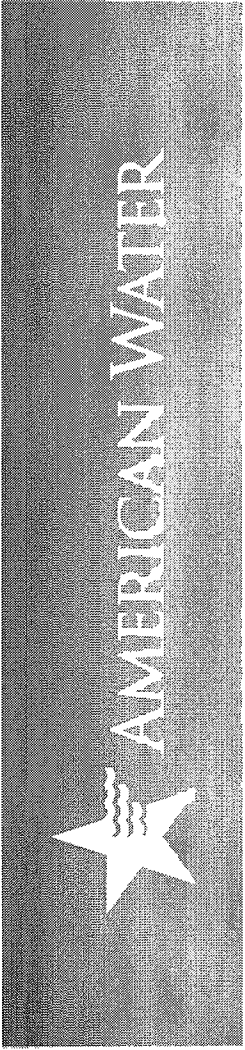
American Water's Rank on TSR Relative to the Dow Jones U.S. Utilities Index	Payout Factor
80 <sup>th</sup> Percentile	150%
65 <sup>th</sup> Percentile	100%
35 <sup>th</sup> Percentile	50%





# Companies in the Dow Jones U.S. Utilities Index

AES Corp.	Cleco Corp.	FirstEnergy Corp.	NorthWestern Corp.	Reliant Energy Inc.
AGL Resources Inc.	CMS Energy Corp.	FPL Group Inc.	NRG Energy Inc.	Scana Corp.
Allegheny Energy Inc.	Consolidated Edison Inc.	Great Plains Inc.	NSTAR	Sempra Energy
Alliate Inc.	Constellation Energy Group Inc.	Hawaiian Electric Industries Inc.	NV Energy Inc.	South Jersey Industries Inc.
Alliant Energy Corp.	Covanta Holding Corp.	IDACORP Inc.	ONEOK Inc.	Southern Co.
Ameren Corp.	Dominion Resources Inc. (Virginia)	Integritys Energy Group Inc.	Pepco Holdings Inc.	Southwest Gas Corp.
American Electric Power Co. Inc.	DPL Inc.	ITC Holdings Corp.	PG&E Corp.	Spectra Energy Corp.
American Water Works Co.	DTE Energy Co.	Laclede Group Inc.	Piedmont Natural Gas Co.	Teco Energy Inc.
Aqua America Inc.	Duke Energy Corp.	Mirant Corp.	Pinnacle West Capital Corp.	UGI Corp.
Atmos Energy Corp.	Dynegy Inc. CI A	National Fuel Gas Co.	PNM Resources Inc.	UniSource Energy Corp.
Avista Corp.	Edison International	New Jersey Resources Corp.	Portland General Electric Co.	Vectren Corp.
Black Hills Corp.	El Paso Electric Co.	Nicor Inc.	PPL Corp.	Westar Energy Inc.
California Water Service Group	Energy Corp.	NiSource Inc.	Progress Energy Inc.	WGL Holdings Inc.
Calpine Corp.	EQT Corp.	Northeast Utilities	Public Service	Wisconsin Energy Corp.
CenterPoint Energy Inc.	Exelon Corp.	Northwest Natural Gas Co.	Enterprise Group Inc.	Xcel Energy Inc.
			Questar Corp.	



## Example of an Equity Award

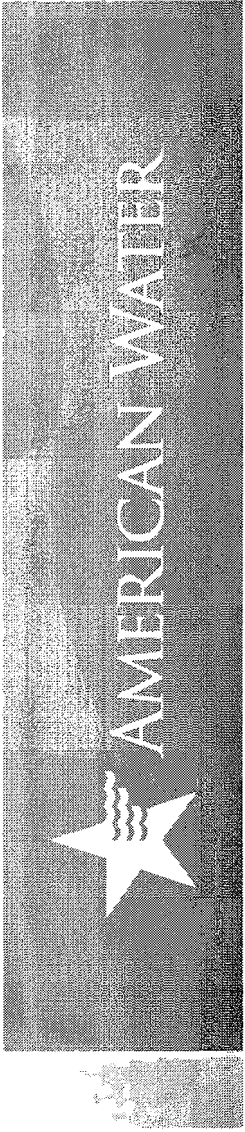
**Dollar Value is \$30,000**

**Option Value:** 50% or \$15,000 divided by \$4 a share = 3,750 options

**PSU Value:** 50% or \$15,000 divided by \$22 a share = 682 PSUs



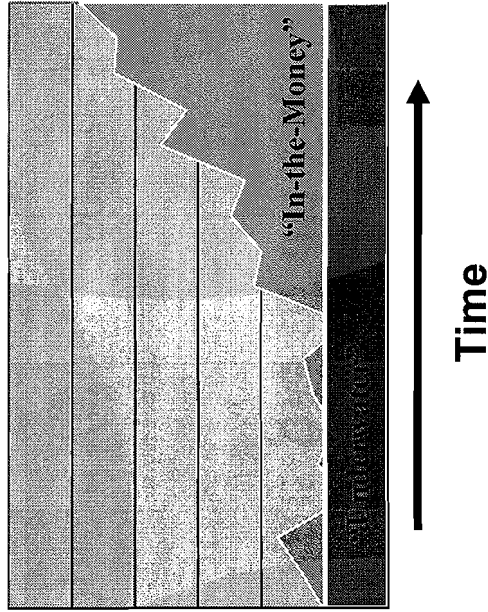
Award granted in 3 installments		Date award vests
<b>Year 1</b>	1,250 options 227 PSUs	January 1, 2010 33.33%
<b>Year 2</b>	2,500 options 455 PSUs	January 1, 2011 66.67%
<b>Year 3</b>	3,750 options 682 PSUs	January 1, 2012 100%



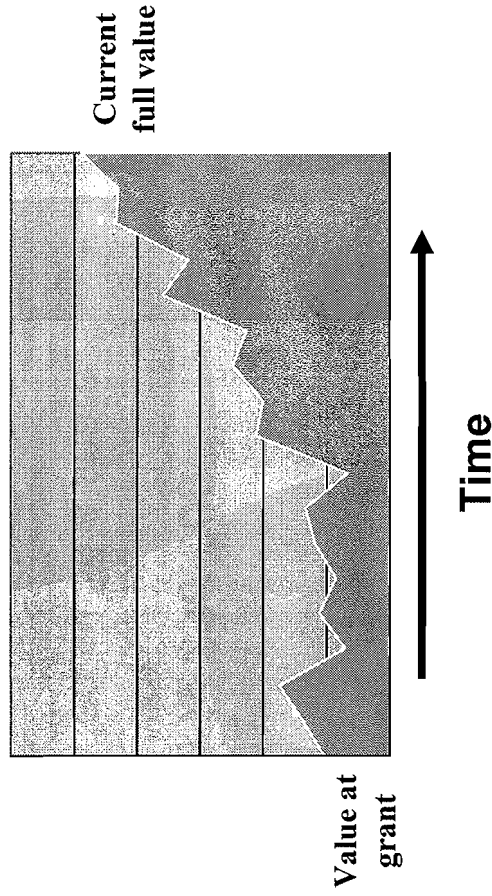
## How do Options Differ from PSUs?

- Options' value at any point in time is the *difference* between American Water's current stock price and the exercise price
- PSUs have *full value* of American Water's share price once vested and performance is determined

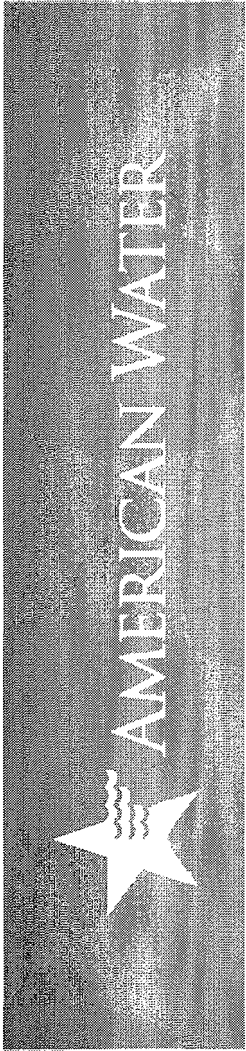
Options



PSUs



Charts are for illustrative purposes only and do not reflect actual stock performance.

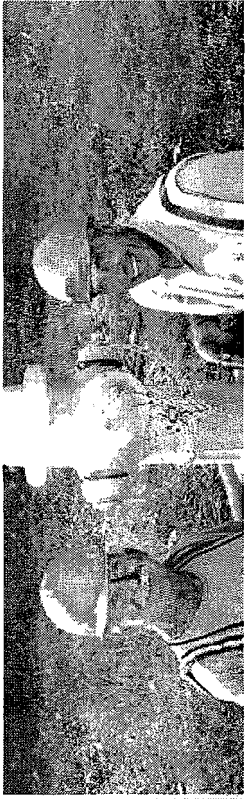


## Options vs. PSUs — a side-by-side comparison

	Options	PSUs
<b>Vesting</b>	<ul style="list-style-type: none"> <li>Three installments over three year period</li> </ul>	<ul style="list-style-type: none"> <li>Three installments over three year period, fully vested after three years when performance is determined</li> </ul>
<b>What you get at vesting</b>	<ul style="list-style-type: none"> <li>Right to exercise your option and receive the difference in value of stock above the exercise price</li> </ul>	<ul style="list-style-type: none"> <li>The <i>full</i> value of an American Water share</li> </ul>
<b>Cost of ownership</b>	<ul style="list-style-type: none"> <li>Pay exercise price at exercise</li> </ul>	<ul style="list-style-type: none"> <li>No cost</li> </ul>
<b>Taxed on</b>	<ul style="list-style-type: none"> <li>Gain in value between price at grant and price at exercise</li> <li>Gains if you later sell shares</li> </ul>	<ul style="list-style-type: none"> <li>Value at distribution</li> <li>Gains if you later sell shares</li> </ul>
<b>Expiration</b>	<ul style="list-style-type: none"> <li>Expire on December 31, 2015</li> </ul>	<ul style="list-style-type: none"> <li>Never expire</li> </ul>



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## How your Equity Award is Taxed

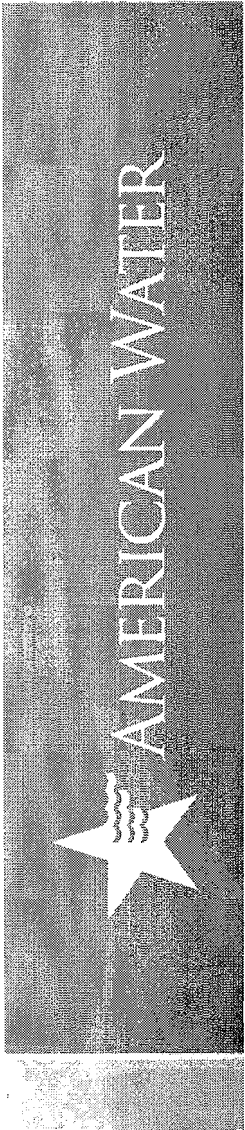
	Options	RSUs
<b>At grant</b>	<ul style="list-style-type: none"> <li>You owe nothing</li> </ul>	<ul style="list-style-type: none"> <li>You owe nothing</li> </ul>
<b>On the vesting date</b>	<ul style="list-style-type: none"> <li>You owe nothing (unless you exercise on that date)</li> </ul>	<ul style="list-style-type: none"> <li>You will be taxed on the current value of your shares unless you defer distribution</li> </ul>
<b>At exercise</b>	<ul style="list-style-type: none"> <li>You are taxed on any increase in the value of stock above the exercise price of the option</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
<b>At the time you sell your shares</b>	<ul style="list-style-type: none"> <li>You are taxed on any additional increase in the value of the shares (from exercise)</li> </ul>	<ul style="list-style-type: none"> <li>You will be taxed on any increase in the value of the shares (from the distribution date)</li> </ul>

*Consult your tax advisor to learn more about your individual tax situation.*



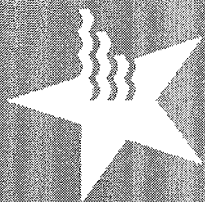
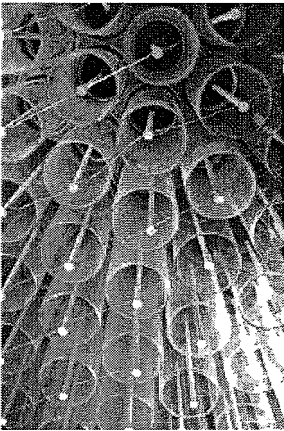
## Managing your Equity Award through E\*TRADE

- Equity Award account is set up for you through E\*TRADE
  - [www.etrade.com](http://www.etrade.com)
  - 1-800-838-0908
- Contact E\*TRADE for:
  - Important information on your awards and vesting
  - Easy-to-use modeling and transaction tools
- You must first activate your E\*TRADE account to use the system
  - Refer to the packet of materials you received from E\*TRADE for activation instructions



## Resources

- **Debbie Krauss-Kelleher**
  - 856-346-8295
- **Dan Shallow**
  - 856-346-8285
- **E\*TRADE**
  - 1-800-838-0908
  - [www.etrade.com](http://www.etrade.com)



AMERICAN WATER

Questions?





AMERICAN WATER

American Water Works Company, Inc.

**2010 Equity Award Brochure  
for Employees**

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*This guide provides an overview of your 2010 equity awards granted to you under the American Water Works Company, Inc. (American Water) 2007 Omnibus Equity Compensation Plan. The Equity Award — a key component of your American Water compensation package — promotes the achievement of the Company’s long-term, strategic business objectives. Read this guide to learn about Equity Awards and how they reward you for contributing to American Water’s financial success.*

**Equity Award Highlights**

- Certain American Water employees are eligible for Equity Award grants. This brochure applies to ML1 to L05 employees.
- Each grant is a combination of 40% non-qualified stock options (stock options) and 40% performance stock units (PSUs) based on total shareholder return (TSR); 20% PSUs based on internal goals.
- Options vest 33.3% each on January 1, 2011, January 1, 2012 and January 1, 2013.
  - Once vested, you may purchase (or “exercise”) your options.
  - An option’s value is the difference between (a) the exercise price, versus (b) the market price of American Water’s stock at the time you exercise the option.
  - Options expire December 31, 2016.
- You earn a right to your PSU award in three installments (33.3% each installment) on January 1 of 2011, 2012 and 2013.
  - Awards are distributed in early 2013, based on company performance over the three-year performance period

**AN OVERVIEW OF THE EQUITY AWARD**

You have been granted a 2010 Equity Award in connection with American Water common stock. Your award is determined by the Compensation Committee of the American Water Board of Directors (“the Committee”) and based on management level.

**The Amount of Your Award Grant**

Your award grant amount is based on a percentage of your base salary, granted in the form of equity in the Company: 40% of the value in stock options, 40% of the value in PSUs based on TSRs, and 20% value in PSUs based on internal performance goals.

The following illustrates a possible award under the 2010 grant for an employee.

<i>Assumptions</i>	2010 Grant
■ Dollar Value	\$30,000
■ Option Value	\$4.00 per share
■ PSU Average Value	\$21.00 per share

2010 Award Grant	
■ Total Dollar Value	<b>\$29,997</b>
— Number of options (dollar value)	3,000 options (\$12,000)
— Number of PSUs (dollar value)	857 PSUs (\$17,997)

**NOTE: All values shown are illustrative only.**

## An Award Based on American Water's Success

As a publicly-held company, American Water has a responsibility to its shareholders to drive long-term success and increase the value of American Water stock.

The Equity Award provides opportunities for rewards based on long-term performance, and allows you to share in our success. The 2010 award includes a performance-based stock component, which awards shares based on American Water's Total Shareholder Return (TSR) ranking among peer companies in the Dow Jones U.S. Utilities Index as well as performance stock units based on our company's internal metrics. This design aligns more closely with the market and helps keep American Water competitive with our peers in the utilities industry.

**REMINDER: All employees and directors are subject to the Company's Insider Trading Policy. Before exercising any options you must review the Company's Insider Trading Policy. In addition, under the Insider Trading Policy, certain persons (Section 16 and Restricted Individuals) are subject to more extensive requirements, including the affirmative obligation to "pre-clear" any proposed purchase or sale of Company securities with the CFO, General Counsel, or inside SEC Counsel.**

If you have any questions about the Insider Trading Policy and pre-clearance process, please call Securities Paralegal (856-346-8257) or SEC Counsel (856-309-4589).

## ABOUT OPTIONS AND PERFORMANCE STOCK UNITS

*The following sections describe how the options and PSUs granted to you vest and are distributed.*

### Stock Options

- *40% of Equity Award*
- *Exercise price is the closing price on the date of grant*
- *Options vest 33.3% each on January 1 of 2011, 2012 and 2013. Options are 100% vested as of January 1, 2013.*

**A stock option is your right to purchase a share of American Water stock at the exercise price, once vested, for a set period of time.**

A stock option gives you the right to purchase a share of American Water stock at an "exercise price" for a set period of time.

The number of options you are granted is based on the monetary value of your option award and the **Black-Scholes value** for an option on the date of the grant.

### Vesting

Your options vest 33.3% each on January 1 of 2011, 2012 and 2013. You may purchase (or "exercise") your options, once they are vested, until their December 31, 2016 expiration date. You forfeit all rights to the options if you do not take action by the expiration date.

Grant Date	Percent Vested						
	Jan 1, 2011	Jan 1, 2012	Jan 1, 2013	Jan 1, 2014	Jan 1, 2015	Jan 1, 2016	Dec. 31, 2016
Feb/	33.3%						Options Expire
March	33.3%						
2010	33.3%						
	<i>Exercise Period</i>						
	<i>Exercise Period</i>						
	<i>Exercise Period</i>						

### ***The Value of Your Options***

The value of your options depends on American Water's stock performance in the future. This means they may or may not have value at the time they expire. The greater the increase in American Water's market price, the greater the value of your award.

The value you receive is the difference between (a) the exercise price, and (b) the market price of the stock at the time you exercise your options.

You will benefit if the market price of American Water's stock at exercise is *greater* than its exercise price on the date of the grant. However, if the market price at exercise is *lower* than the exercise price, you will not obtain any value from exercising the option.

### ***Exercising Your Options***

You may choose to exercise all or a portion of your vested stock options before the exercise period ends on December 31, 2016. When you are ready to exercise your options, contact E\*TRADE at [www.etrade.com](http://www.etrade.com) or at 1-800-838-0908. (See "Managing Your 2010 Equity Award" on page 7 for more information.)

You may exercise your options using any of the following methods:

1. **Cash.** You can exercise your options and buy the shares with money from personal funds to cover the exercise price, taxes and transaction fees.
2. **Exercise and sell.** You can exercise your options by either (a) selling just enough stock to cover the exercise price, taxes and transaction fees; **or** (b) selling additional shares to cover the exercise price, taxes and fees *and* receive the net proceeds in cash.
3. **Stock swap.** You can instruct E\*TRADE to use shares of American Water common stock you currently own to fund the exercise of your stock options, provided that it is approved by the Committee.

*Example*

Let's assume you are awarded 3,000 stock options

- The options vest in three installments: 33.3% each on January 1 of 2011, 2012 and 2013.
- You exercise the first vested installment on June 1, 2012 (market price = \$23 per share), the second vested installment on April 1, 2015 (market price = \$26 per share) and the third vested installment on July 1, 2016 (market price = \$30 per share).

Options Awarded in 2010	Number of Options Vested	Vesting Date	Exercise Date	Future Value When You Exercise your Options <sup>1</sup>	Amount You Pay to Exercise Options	Fees Charged <sup>2</sup>	Your Pre-tax Gain at Exercise
3,000	1,000	Jan. 1, 2011	June 1, 2012	\$23,000 (1,000×\$23)	\$21,000 (1,000×\$21.00)	Determined by E*TRADE	\$2,000
	1,000	Jan. 1, 2012	Apr. 1, 2015	\$26,000 (1,000×\$26)	\$21,000 (1,000×\$21.00)	Determined by E*TRADE	\$5,000
	1,000	Jan. 1, 2013	July 1, 2016	\$30,000 (1,000×\$30)	\$21,000 (1,000×\$21.00)	Determined by E*TRADE	\$9,000

<sup>1</sup> You can exercise your vested options until December 31, 2016, subject to employment requirements as defined by the plan.

<sup>2</sup> Costs and fees associated with exercising your stock options will be determined by E\*TRADE.

**Performance Stock Units**

- *40% of Equity Award – Total Shareholder Return*
- *20% of Equity Award – Internal Performance Goals*
- *You earn a right to your PSUs in three installments (33.3% each) on January 1 of 2011, 2012 and 2013. Awarded shares are determined based on Company performance and paid in early 2013*
- *Actual awards may range from 0% to 175% of target based on performance*

**A Performance Stock Unit** is an award that represents a “notional” share of American Water stock.

A PSU gives you the right to receive one share of American Water common stock without paying an exercise price. So, you benefit by receiving actual shares of American Water stock — after the end of the three-year performance period.

Unlike stock options, which are valued based on the *appreciation* of the stock after the grant date, PSUs represent the *total value* of the stock at the time you earn a right to receive it. This means that PSUs have value even if the stock price falls after the date you receive your award.

You earn a right to your PSUs in three installments (33.3% each) on January 1, 2011, January 1, 2012, and January 1, 2013. However, your shares are not awarded to you until after the three-year performance period ends on January 1, 2013. The number of shares that are actually awarded depends on Company performance against specific metrics (see “Measuring Company Performance” on page 5).

Grant Date	Percent of PSUs Earned			
	Jan 1, 2011	Jan 1, 2012	Jan 1, 2013	Early 2013 ( before March 15)
Feb/ March 2010	33.3%	33.3%	33.3%	Company performance measured; PSUs distributed

During the performance period, you do not actually own the shares, which means you do not have voting rights and you cannot sell or transfer the units. If dividends are paid during the performance

period, those dividends will accrue in a “notional” personal account until the end of the performance period. You will then be paid in cash for any accrued dividends at the end of the performance period based on the number of PSUs earned.

After the end of the three-year performance period, you can hold or sell your shares — the choice is yours. Unlike options, the shares never expire so there is no time limit associated with them. If you choose to sell the shares, you will receive the current market price at the time of sale.

**PSUs Based on Total Shareholder Return (TSR)**

To determine the final payout for the PSUs based on Total Shareholder Return (TSR) at the end of the three-year performance period, the Company uses American Water’s rank relative to the other companies in the Dow Jones U.S. Utility Index.

The Company’s TSR performance is assessed using a percentile ranking approach, as follows:

American Water’s Rank on TSR Relative to the Dow Jones U.S. Utility Index	Payout Factor
35 <sup>th</sup> Percentile	35%
50 <sup>th</sup> Percentile	100%
90 <sup>th</sup> Percentile	175%

TSR is calculated as:

$$\frac{\begin{array}{c} \text{Change in share price over the three-year performance period} \\ \text{Plus} \\ \text{Dividends paid over the three-year period} \end{array}}{\text{American Water’s average share price at the beginning of the period}}$$

**Example**

Let’s assume you receive 571 PSUs (\$30,000 Dollar Value x 40% Award / \$21.00) on the grant date.				
<ul style="list-style-type: none"> <li>■ The PSUs are earned in three installments: 33.3% each on January 1, of 2011, 2012 and 2013. They are 100% vested as of January 1, 2013.</li> <li>■ At the end of the three-year performance period, American Water’s TSR performance is ranked at the 50<sup>th</sup> percentile relative to the Dow Jones U.S. Utilities Index</li> </ul>				
Total PSUs Granted in 2010	Number of PSUs Vested	Date Earned	TSR Percentile Ranking Relative To Dow Jones U.S. Utilities Index At End of Three-Year Performance Period	Total Shares Awarded at end of Three-Year Performance Period
571	190	Jan. 1, 2011	50th percentile	571
	190	Jan. 1, 2012		
	191	Jan. 1, 2013		

If you decide to sell your awarded shares and the market price at the time of sale is \$30 per share, you would receive \$17,130 from the sale — minus taxes and applicable fees.

### PSUs Based in Internal Performance Goals

20% - Based on Internal Performance Goals (See Grant Agreement)

- Compounded Earnings per Share (“EPS) Growth (25%)
- Operational Efficiency Improvement (50%)
- Increase In Population Served (25%)

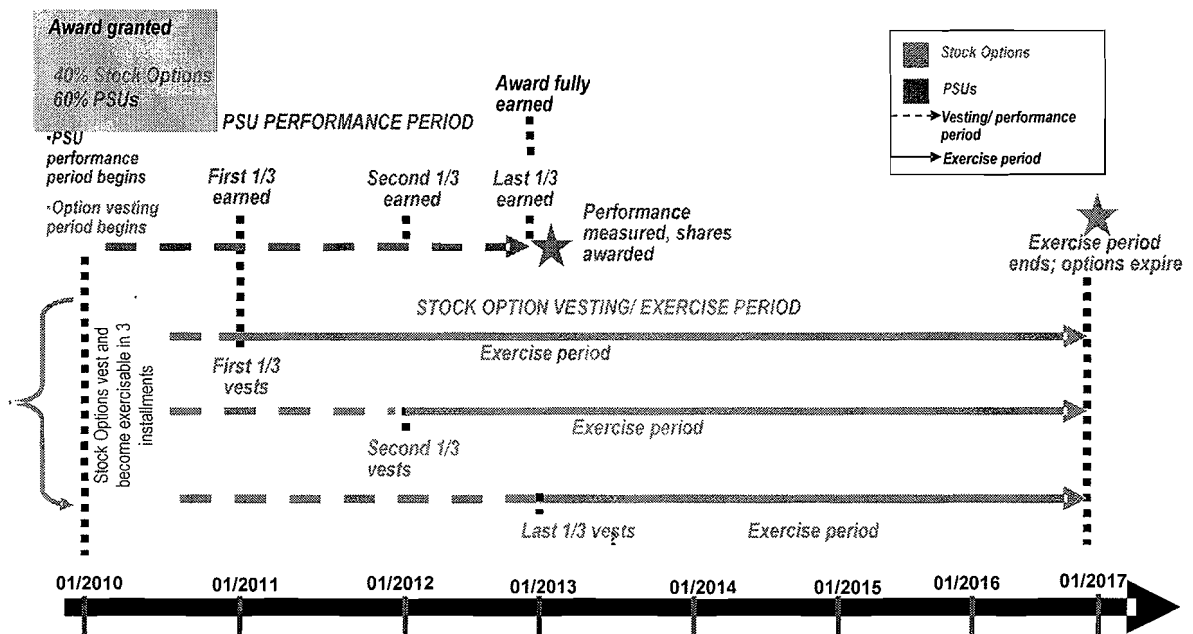
### Deferring Your Awarded Shares

You may elect to defer receiving all of your awarded shares until after the scheduled distribution date, provided you make the election by December 31, 2011.

See your PSU grant agreements for details.

### Timing and Distribution of Award

The following is a timeline of key events for the stock option and PSU components of your grant:



#### Driving Shareholder Value

You can make a difference. Think about the activities you perform on a day-to-day basis and consider how you can improve quality, delivery and service or reduce operational costs. Your contributions can help generate results that lead to significant rewards for you, and success for American Water.

As an American Water management employee and shareholder, you not only have the ability to influence our day-to-day performance, you also share in the long-term rewards of American Water's success if the value of your shares appreciates. Of course there is no guarantee that the value of the shares you own will appreciate. Depreciation in value is possible as well.



## TAXATION OF EQUITY AWARDS

### How Options are Taxed

Options are not taxed until you exercise them and/or sell the stock after an increase in value.

- **At exercise.** When you exercise your options (regardless of whether you sell the stock you receive), you will owe ordinary income tax on the difference between the market price on the date of grant and the market price of American Water's stock at the time you exercise. Your tax liability is reported to the Internal Revenue Service by American Water payroll. This means that in the example on page 4, you would owe taxes on \$2,000\* for the 2012 tax year, \$5,000\* for the 2015 tax year and \$9,000\* for the 2016 tax year.

*\*Your pre-tax gain at exercise.*

- **At sale of the shares.** If you exercise your options, hold the stock for a period of time then later sell the stock at a higher price than what you paid for it, you will owe capital gains tax. This tax will be assessed on any *additional* appreciation on the market price of American Water's stock between the time of exercise and the time of sale. (Note that these taxes are not reported to the Internal Revenue Service by American Water, and that these taxes are in addition to the ordinary income taxes incurred at each option exercise.)

**Consult your personal tax advisor to learn more about your tax situation.**

### How PSUs are Taxed

You will not be responsible for any taxes when the PSUs are granted. However, you will owe ordinary income tax, payable if earned based on performance, on the full value of the shares at the end of the three-year performance period (unless the PSUs are deferred). American Water will withhold a portion of your earned shares to cover the minimum required withholding for Federal (including FICA), state, local and other tax liabilities. See your PSU grant agreements for details.

If you hold the shares received, you will owe capital gains tax for any additional share price appreciation between the market price on the date the shares are received and the market price on the date of the sale.

**Consult your personal tax advisor to learn more about your tax situation.**

## MANAGING YOUR 2010 EQUITY AWARD

E\*TRADE is the record keeper for the American Water Equity Awards. When you receive an Equity Award grant, an Equity Award account is established on your behalf through E\*TRADE. You can manage your account online through [www.etrade.com](http://www.etrade.com), or by phone at 1-800-838-0908.

### Activating Your E\*TRADE Account

Employees who received a prior equity award will be able to access the 2010 award using your existing E\*TRADE account. If this is your first year receiving an Equity Award, you will first need to activate your E\*TRADE account in order to access it. You will receive a packet of materials from E\*TRADE with instructions on how to activate your account. **If you do not activate your E\*TRADE account, you will not be able to access or manage your Equity Awards.**

Once you've activated your account, go to [www.etrade.com](http://www.etrade.com) (or call E\*TRADE at 1-800-838-0908) to track vesting, conduct transactions and model the long-term value of your awards.

## TERMINATION PROVISIONS

If you leave American Water due to ...	Then...
Death or total disability	<ul style="list-style-type: none"> <li>■ <b>With respect to stock options:</b> Your unvested award becomes 100% vested.</li> <li>■ <b>With respect to PSUs:</b> You or your beneficiaries as designated in your will are entitled to receive only the shares that you earned before the date of your death or disability. Those shares will be distributed at the end of the three-year performance period.</li> </ul>
Voluntary or involuntary resignation, or termination for cause (including normal and/or early retirement)	<ul style="list-style-type: none"> <li>■ You forfeit your unvested options and unearned PSUs.</li> </ul>
<b>Change In Control (CIC)</b>	
<ul style="list-style-type: none"> <li>■ Unvested options become 100% vested; and you earn the right to any previously unearned PSUs.</li> </ul>	

## FOR MORE INFORMATION

If you still have questions about the American Water Equity Awards, contact:

Resource	Contact Information
Debbie Krauss-Kelleher	856-346-8295
Dan Shallow	856-346-8285
E*TRADE	1-800-838-0908 www.etrade.com

## GENERAL QUESTIONS AND ANSWERS

Question	Answer
Who is eligible for Equity Awards?	Certain employees are eligible for Equity Award grants. This brochure applies to ML1-L05 employees.
How do I exercise my stock options?	Contact E*TRADE at <a href="http://www.etrade.com">www.etrade.com</a> or 1-800-838-0908 for information on exercising your stock options.
When will I receive the shares earned under my PSU grant?	Although you earn your PSUs in three installments of 33.3% each on January 1 of 2011, 2012 and 2013, you will not receive any of your earned shares until the end of the three-year performance period (provided threshold performance levels for the performance period have been achieved).
Can I give my Equity Award to another person?	No. Your awards are granted to you and they cannot be transferred to another individual.
What does it mean to own a share of American Water stock?	Owning a share means you own a part of American Water. This means that you have voting rights and receive dividends along with other shareholders.

**GLOSSARY OF TERMS**

<b>Term</b>	<b>Definition</b>
<b>Black-Scholes Valuation</b>	An internationally-recognized mathematical valuation model used to value stock options, which incorporates various types of inputs (such as the stock volatility and interest rates). We use this formula to establish the value of option grants. The use of this model for this purpose is consistent with standard market practice.
<b>Board</b>	The Board of Directors of American Water Works Company.
<b>Common Stock</b>	Units of ownership of a corporation.
<b>Equity</b>	Awards that are linked to American Water's share price.
<b>Exercise</b>	The transaction in which you sell your vested options to buy shares of American Water common stock.
<b>Exercise date</b>	The date on which you buy actual shares of American Water common stock at the market price on the date of grant. Following exercise, you may decide to keep or sell the shares.
<b>Exercise period</b>	The period during which you may exercise your vested options under the grant. The exercise period for the 2010 grant ends December 31, 2016.
<b>Exercise price</b>	The fixed price for which an option holder may purchase a single share of American Water common stock after the options become vested.
<b>Grant</b>	The awarding of a specified number of options or Performance Stock Units.
<b>Performance period</b>	The three-year period from January 1, 2010 through December 31, 2012.
<b>Performance Stock Unit</b>	Performance Stock Units (PSUs) are "notional" shares of company stock. At the end of the three-year performance period, PSUs will convert to actual shares of American Water common stock based on Company performance. Their value will depend on the market value of the stock at that time.
<b>PSU grant agreement</b>	Your American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Performance Stock Unit Grant agreements.
<b>Market price</b>	The price at which American Water shares trade on the stock market.
<b>Stock option</b>	Your right to purchase shares of American Water stock at the exercise price, on or after vesting, during the exercise period — provided you continue to be employed by American Water.
<b>Stock option grant agreement</b>	Your American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan Nonqualified Stock Option Grant agreement.
<b>Total disability</b>	You are considered to have a "total disability" as determined by the Social Security Administration.

Term	Definition
Total Shareholder Return (TSR)	<p>TSR equals:</p> <p style="text-align: center;">Change in share price over the three-year performance period; <b>PLUS</b> Dividends paid over the three-year period; <b>DIVIDED BY</b> The share price at the beginning of the period.*</p> <p><i>*American Water uses an average stock price at the beginning and end of the performance period to calculate TSR.</i></p>
Vesting	Becoming entitled to all or a portion of an Equity Award.
Vesting period <i>(Referred to as the "Service Date" in the grant agreements)</i>	<ul style="list-style-type: none"> <li>■ <i>With respect to stock options</i>, the period of time that must elapse before options can be used to buy shares of American Water common stock.*</li> <li>■ <i>With respect to Performance Stock Units (PSUs)</i>, the period of time that must elapse before you have earned the right to the PSUs.* The PSUs will not be converted into shares and distributed until the end of the three-year performance period (if earned based on performance).</li> </ul> <p><i>*Provided you continue to be employed by American Water.</i></p>

**REMINDER: All employees and directors are subject to the Company's Insider Trading Policy. Before selling (or buying) any Company securities you must review the Company's Insider Trading Policy. In addition, under the Insider Trading Policy, certain persons (Section 16 and Restricted Individuals) are subject to more extensive requirements, including the affirmative obligation to "pre-clear" any proposed purchase or sale of Company securities with the CFO, General Counsel, or inside SEC Counsel.**

**If you have any questions about the Insider Trading Policy and pre-clearance process, please call Securities Paralegal (856-346-8257) or SEC Counsel (856-309-4589).**

The discussion of certain federal income tax effects in this brochure is a summary only. Please refer to the Internal Revenue Code for a complete statement of all relevant federal tax provisions. We recommend that holders of American Water stock options and/or Performance Share Units consult their tax advisor.

The Company's policies, procedures and benefits, including (without limitation) those covered in this brochure, as well as wages and all other terms and conditions of employment, are subject to change, revision or deletion by the Company at any time. This may be done without consulting or obtaining agreement from anyone.

This brochure is intended to provide a summary of your American Water Equity Awards. All Equity Awards are subject to the terms and conditions of the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the Equity Award grant agreements under which they are issued. In the event of any conflict between the terms of your Equity Award grant agreements, the Plan and this brochure, the terms of the grant agreements and the Plan will govern.

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of \_\_\_\_\_, 2010, (the "Date of Grant") is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2010 Long Term Incentive Plan ("2010 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value \$0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2010 LTIP and to grant the Participant an Equity Award under the 2010 LTIP; and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Equity Award granted to the Participant pursuant to the 2010 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of such nonqualified stock option shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the "Option") to purchase \_\_\_\_\_ shares of Company Stock, at an exercise price of \$ \_\_\_\_\_ per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b) or (c) below, the Option shall become exercisable on the following dates, if the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable date:

<u>Date</u>	<u>Shares for Which the Option is Exercisable</u>
January 1, 2011	1/3
January 1, 2012	1/3
January 1, 2013	1/3

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Company Stock subject to the Option. If the foregoing schedule would produce fractional shares of Company Stock, the number of shares of Company Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Company Stock. The Option shall become fully exercisable on January 1, 2013, if the Participant is employed by, or providing service to, the Employer on such date.

(b) If at any time prior to the date the Participant's Option becomes exercisable as described in subparagraph (a) above, the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Option shall become fully exercisable on the date of the Participant's termination of employment or service with the Employer on account of death or Total Disability. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If a Change of Control (as defined in the Plan) occurs while the Participant is employed by or providing service to the Employer, then the Option shall become fully exercisable as of the date of the Change of Control.

### 3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2016, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates on account of death or Total Disability, the expiration of the one year period following the date of the Participant's termination of employment or service on account of death or Total Disability.

(ii) If the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), the expiration of the one year period following the date of the Participant's termination of employment or service on account of Normal Retirement. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained both (A) at least age 55, and (B) total years of employment and service with the Employer equals or exceeds 10.

(iii) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), Normal Retirement, death or Total Disability, the expiration of the ninety (90) day period following the date of the Participant's termination of employment or service for any reason other than on account of termination for Cause, death, Total Disability or Normal Retirement.

(iv) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 2016. Any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

#### 4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise, equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the

Option after the Participant's death) represent that the Participant is purchasing the shares of Company Stock for the Participant's own account and not with a view to, or for sale in connection with, any distribution of the shares of Company Stock, or such other representations as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set forth in Paragraph 2(c) of this Grant, the provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees to be bound by the terms of the Plan and the Grant and that all decisions and determinations of the Committee with respect to the Grant shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year



that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that the shares of Company Stock obtained by the Participant upon the exercise of the Option shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives.

9. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

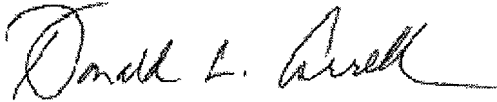
13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Donald L. Correll

A handwritten signature in cursive script that reads "Donald L. Correll". The signature is written in black ink and is positioned below the printed name.

Its: President and CEO

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of \_\_\_\_\_, 2010, (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to \_\_\_\_\_ (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2010 Long Term Incentive Plan (“2010 LTIP”) pursuant to which designated employees will be granted equity awards (collectively, the “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share, (the “Company Stock”);

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2010 LTIP and to grant the Participant an Equity Award under the 2010 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2010 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the “Plan”), and the terms and conditions of the performance stock unit grant that may be earned based on performance goals relating to the Company’s Total Stockholder Return shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ performance stock units (the “Performance Units”). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the performance goals and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the performance goals described in Paragraph 3 below (the “Target Award”).
2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the “Performance Unit Account”) for the Participant and shall record in such Performance Unit Account the number of Performance Units

granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals described in subparagraph (b) below for the Performance Period and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company's Total Stockholder Return ("TSR") (as described in subparagraph (c) below) will be compared to the TSR of the companies in the Peer Group (as defined below) over the Performance Period. The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company's TSR relative to the TSR performance of the companies in the Peer Group, as follows:

<u>Level of Achievement</u>	<u>Percentile Ranking Relative to Peer Group</u>	<u>Percentage of Target Award Earned</u>
<i>Maximum</i>	90%	175%
<i>Target</i>	50%	100%
<i>Threshold</i>	35%	35%

If the Company's actual TSR performance is between measuring points, the number of Performance Units the Participant earns will be interpolated. If the Company's actual TSR performance is below the threshold, no Performance Units will be earned and all of Performance Units will be forfeited. If the Company's actual TSR performance is greater than the maximum, only the maximum number of Performance Units will be earned.

(c) TSR represents stock price performance and dividend accumulation over the Performance Period for the Company and Peer Group. For purposes of this calculation, the initial stock price and the ending stock price are determined using the twenty (20) day average stock price for December 31, 2009, and December 31, 2012, as applicable. The twenty (20) day average stock price is the average of the daily closing stock prices for the twenty (20) trading days that end on the applicable December 31. To determine stock price performance, a dividend adjustment factor will be determined. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in stock price by reason of deeming the dividend to be reinvested in the stock. TSR is determined by adjusting the ending stock price as determined above by the dividend adjustment factor and comparing it to the initial stock price. The initial Company Stock price is \$22.163 per share.

(d) Following the end of the Performance Period, the Committee will determine whether and to what extent the performance goals have been met and certify the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(f) For purposes of this Grant, the term "Performance Period" shall mean the three-year period beginning on January 1, 2010 and ending December 31, 2012, and the term "Peer Group" shall mean those companies that comprise the Dow Jones U.S. Utility Index as of January 1, 2010.

#### 4. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the performance goals and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2011, but prior to January 1, 2012; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2012, but prior to January 1, 2013; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 1, 2013. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 1, 2011 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on

account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the performance goals. For purposes of this Grant, the term “Cause” shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earlier of (i) January 1, 2013 (the “Distribution Date”), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the performance goals and service condition will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2010 LTIP, and complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant’s election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant’s earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the “Deferred Date.”

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are declared with respect to the shares

of Company Stock, the Company shall credit to a dividend equivalent account (the “Dividend Equivalent Account”) the value of the dividends that would have been distributed if the Performance Units credited to the Participant’s Performance Unit Account at the time of the declaration of the dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant’s Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant’s Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant’s Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant’s rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.



15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant shall be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

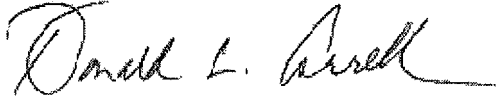
18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

19. Section 409A of the Code. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution.

*[SIGNATURE PAGE FOLLOWS]*

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

By: Donald L. Correll

A handwritten signature in black ink that reads "Donald L. Correll". The signature is written in a cursive style with a long horizontal flourish at the end.

Its: President and CEO

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of \_\_\_\_\_, 2010, (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2010 Long Term Incentive Plan ("2010 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value \$0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2010 LTIP and to grant the Participant an Equity Award under the 2010 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2010 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of the performance stock unit grant that may be earned based on performance goals relating to compounded earnings per share growth and operational efficiency improvement, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals (as defined below) and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the "Target Award").
2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the

Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals set forth in Exhibit A attached hereto (the “Performance Goals”) and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) Following the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and certify the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the “Change of Control Date”). For purposes of this Grant, the term “Change of Control” shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the “Code”) and its corresponding regulations.

(d) For purposes of this Grant, the term “Performance Period” shall mean the three-year period beginning on January 1, 2010 and ending December 31, 2012.

4. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant’s employment or service with the Employer terminates on or after January 1, 2011, but prior to January 1, 2012; (ii) 2/3, if the Participant’s employment or service with the Employer terminates on or after January 1, 2012, but prior to January 1, 2013; and (iii) 3/3, if the Participant’s employment or service terminates with the Employer on or after January 1, 2013. If the Participant ceases to be

employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 1, 2011 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earlier of (i) January 1, 2013 (the "Distribution Date"), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goals and service condition will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2010 LTIP, and complete the deferral

election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account at the time of the declaration of the dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not

interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant shall be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

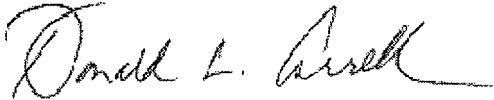
19. Section 409A of the Code. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution.



IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Donald L. Correll

A handwritten signature in black ink, appearing to read "Donald L. Correll". The signature is written in a cursive style with a long horizontal flourish at the end.

Its: President and CEO

## EXHIBIT A

### PERFORMANCE GOALS

The number of Performance Units that may be earned shall be determined based on the combined achievement of Compounded Earnings Per Share Growth (as described below) (33.3% weighting) and Operational Efficiency Improvement (as described below) (66.7% weighting) over the Performance Period.

Compounded Earnings Per Share (“EPS”) Growth – will be calculated based on fully diluted EPS calculated in accordance with U.S. GAAP as reported in the Company’s audited consolidated financial statements adjusted to exclude the net of tax impact of any impairments. The starting point for the calculation will be adjusted EPS of \$1.25 for the year ended December 31, 2009. The ending point for the calculation will be EPS for the year ended December 31, 2012, adjusted to exclude the net of tax impact of any impairments.

As soon as administratively practicable following the end of the Performance Period, the Committee will certify the level of achievement of the Compounded EPS Growth.

Operational Efficiency Improvement – will be calculated as the ratio of total operation and maintenance expense (“O&M”) to total operating revenues for the Company’s regulated operations. This information is to be prepared in a manner that is consistent with the income statement presentation in the Company’s annual audited consolidated financial statements prepared in accordance with U.S. GAAP, and the Segment Information reported for the Regulated Businesses segment in the notes to those financial statements. The final result will be the average of the three individual calculations for the years ended December 31, 2010, 2011 and 2012.

As soon as administratively practicable following the end of the Performance Period, the Committee will certify the level of achievement of the Operational Efficiency Improvement.

The award scale for Compounded EPS Growth is as follows:

<b>Compounded EPS Growth</b>	
<u>Actual Compounded Growth</u>	<u>Target Award (33.3% Weighting)*</u>
10.0% or more	175%
9.4%	160%
8.8%	145%
8.2%	130%
7.6%	115%
7.0%	100%
6.6%	85%
6.2%	70%
5.8%	55%
5.4%	40%
5.0%	25%
<5.0%	0%

The award scale for Operational Efficiency Improvement is as follows:

<b>Operational Efficiency Improvement</b>	
<u>Actual Three Year Average</u>	<u>Target Award (66.7% Weighting)*</u>
49.0%	175%
49.3%	160%
49.6%	145%
49.9%	130%
51.2%	115%
51.5%	100%
51.8%	85%
52.1%	70%
52.4%	55%
52.7%	40%
53.0%	25%
> 53.0%	0%

\* Results between the award percentages in the award scales will be interpolated. If actual achievement of any of the two Performance Goals does not meet threshold performance (i.e., less than 5% for Compounded EPS Growth and greater than 53% for Operational Efficiency Improvement), then that Performance Goal measure will be reflected in the final result for determining the number of earned Performance Units at its assigned weighting with a 0%. The maximum award that may be earned for each Performance Goal is capped at 175%, and the maximum award that may be earned by the Participant is capped at 175% of the Target Award.

Example

The following is an example calculation for an individual with a Target Award of 1,000 Performance Units:

Earnings Per Share

(Dollars in thousands, except per share)

	12/31/2009 <u>Actual</u>	12/31/2012 <u>Illustration</u>
Net income (loss) per US GAAP	(\$233,083)	\$262,000
Impairment charge, net of tax	443,021	0
Adjustment for diluted EPS calculation	0	(1,000)
	<u>209,938</u>	<u>261,000</u>
/ Average common shares outstanding - diluted	168,164	175,235
	<u>\$1.25</u>	<u>\$1.49</u>

Compounded annual growth rate

6.0%

Operational Efficiency Ratio

(Dollars in thousands)

	Year	Operating Revenues	O&M Expense	Annual Efficiency Ratio	Three Year Average
Actual	2007	\$1,987,565	\$1,064,837	53.6%	
Actual	2008	\$2,082,740	\$1,116,933	53.6%	
Actual	2009	\$2,207,290	\$1,159,212	52.5%	53.2%
Illustration	2010	\$2,455,931	\$1,292,112	52.6%	52.9%
Illustration	2011	\$2,629,131	\$1,361,892	51.8%	52.3%
Illustration	2012	\$2,819,455	\$1,421,550	50.4%	51.6%

Earned Performance Units

	<u>Achievement</u>	<u>Award</u>	<u>Weighting</u>	<u>Weighted Payout</u>
Compounded Earnings Per Share Growth	6.0%	62.5%	33.3%	20.8%
Operational Efficiency Improvement	51.6%	95.0%	66.7%	63.4%
			<u>100.0%</u>	<u>84.2%</u>

In this example, the individual who was awarded a Target Award of 1,000 Performance Units would earn 842 Performance Units (1,000 x 0.842), which is convertible into an equivalent number of shares of Company Stock assuming all of the other terms and conditions of the Grant have been satisfied.

AMERICAN WATER WORKS COMPANY, INC.

2007 OMNIBUS EQUITY COMPENSATION PLAN

PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of \_\_\_\_\_, 2010, (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2010 Long Term Incentive Plan ("2010 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value \$0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2010 LTIP and to grant the Participant an Equity Award under the 2010 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2010 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of the performance stock unit grant that may be earned based on performance goals relating to increase in population served, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals (as defined below) and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the "Target Award").
2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units

granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goal set forth in Exhibit A attached hereto (the “Performance Goal”) and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) Following the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goal has been met and certify the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the “Change of Control Date”). For purposes of this Grant, the term “Change of Control” shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the “Code”) and its corresponding regulations.

(d) For purposes of this Grant, the term “Performance Period” shall mean the three-year period beginning on January 1, 2010 and ending December 31, 2012.

4. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant’s employment or service with the Employer terminates on or after January 1, 2011, but prior to January 1, 2012; (ii) 2/3, if the Participant’s employment or service with the Employer terminates on or after January 1, 2012, but prior to January 1, 2013; and (iii) 3/3, if the Participant’s employment or service terminates with the Employer on or after January 1, 2013. If the Participant ceases to be

employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 1, 2011 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earlier of (i) January 1, 2013 (the "Distribution Date"), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goal and service condition will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2010 LTIP, and complete the deferral



election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account at the time of the declaration of the dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

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interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant shall be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

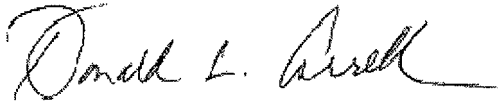
17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

19. Section 409A of the Code. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

By: Donald L. Correll

A handwritten signature in black ink that reads "Donald L. Correll". The signature is written in a cursive style with a long horizontal flourish at the end.

Its: President and CEO

**EXHIBIT A**

**PERFORMANCE GOAL**

The number Performance Units that may be earned shall be determined based on the achievement of Increase in Population Served (as described below) over the Performance Period.

Increase in Population Served – will be calculated based on the three-year increase in population served from December 31, 2009 to December 31, 2012 for the communities served by the Company’s regulated and non-regulated operations. The starting point for the calculation will be the population served of 15,657,090 at December 31, 2009, and the ending point for the calculation will be the population served at December 31, 2012.

As soon as administratively practicable following the end of the Performance Period, the Committee will certify the level of achievement of the Increase in Population Served.

The award scale is as follows:

<b>Increase in Population Served</b>	
<u>Actual Three Year Increase</u>	<u>Target Award*</u>
35% or more	175%
33%	160%
31%	145%
29%	130%
27%	115%
25%	100%
23%	85%
21%	70%
19%	55%
17%	40%
15%	25%
< 15%	0%

\* Results between the award percentages in the award scales will be interpolated. If actual achievement does not meet threshold performance (i.e., less than 15%), then no Performance Units will be earned pursuant to this Grant. The maximum number of Performance Units that may be earned pursuant to this Grant is capped at 175% of the Target Award.

Example

The following is an example calculation for an individual with a Target Award of 1,000 Performance Units:

Population Served

December 31, 2009	15,657,090
December 31, 2012	20,000,000
Increase (decrease)	4,342,910
% Increase	<u>27.7%</u>

Earned Performance Units

	<u>Achievement</u>	<u>Award</u>
Increase in Population Served	27.7%	120.3%

In this example, the individual who was awarded a Target Award of 1,000 Performance Units would earn 1,203 Performance Units (1,000 x 1.203), which is convertible into an equivalent number of shares of Company Stock assuming all of the other terms and conditions of the Grant have been satisfied.

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN  
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of April 22, 2008 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, in connection with the initial public offering of the shares of common stock of the Company, par value \$0.01 per share, (the "Company Stock"), the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined that, in accordance with the terms of the Participant's letter, dated August 27, 2007, the Participant's contingent cash award will be converted to an equity award (the "Equity Award") for shares of Company Stock;

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a restricted stock unit grant; and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Equity Award granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such nonqualified stock option shall be memorialized in this Grant.

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the "Option") to purchase \_\_\_\_\_ shares of Company Stock, which is equivalent to 175% of the Participant's target award, at an exercise price of \$21.50 per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b), (c), (d) or (e) below, in order for the Option to become exercisable the Participant must continue to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through January 1, 2010; provided that the number of shares of Company Stock subject to the Option that shall become exercisable on January 1, 2010 (the "Service Date") shall be determined based on the satisfaction of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals"). The Committee shall certify the level of achievement of the Performance Goals, which certification shall occur as soon as administratively practicable after January 1, 2009, but not later than ninety (90) days following January 1, 2009, (the "Certification Date"). Any portion of the Option that does not become exercisable because of the failure to fully satisfy the Performance Goals shall

be forfeited as of the Certification Date and the Participant shall not have any rights to exercise the portion of the Option attributable to the forfeited shares of Company Stock on the Service Date.

(b) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Option shall become exercisable as a result of the Participant's termination for death or Total Disability; provided, however, that the number of shares of Company Stock subject to the Option that shall become exercisable shall be determined based on the satisfaction of the Performance Goals and the Option shall not become exercisable until the later of (i) the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date, or (ii) the date on which the Participant's employment or service with the Employer has terminated on account of death or Total Disability. Any portion of the Option that does not become exercisable because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date and the Participant or the Participant's beneficiary, as applicable, shall not have any rights to exercise the portion of the Option attributable to the forfeited shares of Company Stock. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of Normal Retirement (as defined below), the Option shall become exercisable as a result of the termination of the Participant's employment or service on account of Normal Retirement; provided, however, that the number of shares of Company Stock subject to the Option that shall become exercisable shall be determined based on the satisfaction of the Performance Goals and such number of shares of Company Stock that shall be exercisable shall be pro rated, with such pro ration determined by taking the number of shares that become exercisable based on the satisfaction of the Performance Goals, multiplied by a fraction, the numerator of which is the number of whole months that the Participant was employed by, or providing service to, the Employer from January 1, 2007 to the date on which the Participant's employment or service with the Employer terminated on account of Normal Retirement (with the month in which the Participant terminating counting as a full month) and the denominator of which is thirty-six (36). The Option shall not become exercisable until the later of (i) the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date, or (ii) the date on which the Participant's employment or service with the Employer has terminated on account of Normal Retirement. Any portion of the Option that does not become exercisable because of the failure to fully satisfy the Performance Goals, along with the pro rata portion of the shares of Company Stock that do not become exercisable as described above, shall be forfeited as of the Certification Date and the Participant shall not have any rights to exercise the portion of the Option attributable to the forfeited shares of Company Stock. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained age 62 and been employed or provided service with the Employer for at least five (5) years.

(d) If at any time prior to the Service Date the Participant's employment or service with the Employer terminates for any reason other than death, Total Disability or Normal



Retirement, all of the shares of Company Stock subject to the Option shall be immediately forfeited and the Participant shall not have any rights to exercise such shares.

(e) If at any time prior to the Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined in the Plan) occurs, then the Option shall become exercisable as of the date of the Change of Control (the "Change of Control Date"); provided, however, that the number of shares of Company Stock subject to the Option that shall become exercisable as of the Change of Control Date shall be determined based on the satisfaction of the Performance Goals as of the (i) date of the Change of Control if the Change of Control occurs prior to the Certification Date, with such criteria adjusted using actual performance through the most recent reporting period prior to the Change of Control as compared to the forecast, or (ii) the Certification Date, if the Certification Date occurs prior to the date of the Change of Control. The Option shall not become exercisable until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date or the Change of Control Date, if earlier. Any portion of the Option that does not become exercisable because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date or the Change of Control Date, if earlier, and the Participant shall not have any rights to exercise the portion of the Option attributable to the forfeited shares of Company Stock.

3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2013 and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates on account of death or Total Disability, the expiration of the later of (A) the one year period following the date of the Participant's death or Total Disability or (B) the one year period following the earlier of the Certification Date or the Change of Control Date.

(ii) If the Participant's employment or service with the Employer terminates on account of Normal Retirement, the expiration of the later of (A) the one year period following the date of the Participant's termination on account of Normal Retirement or (B) the one year period following the earlier of the Certification Date or the Change of Control Date.

(iii) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), death, Total Disability or Normal Retirement, the expiration of the later of (A) the ninety (90) day period following the date of the Participant's termination of employment or service or (B) the ninety (90) day period following the earlier of the Certification Date or the Change of Control Date.

(iv) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 2013. Except as provided in Paragraph 2, any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing Shares for the Participant's own account and not with a view to or for sale in connection with any distribution of the Shares, or such other representation as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set forth in Paragraph 2(e) of this Grant, the provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which is incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees to be bound by the terms of the Plan and the Grant and that all decisions and determinations of the Committee with respect to the Grant shall be final and binding on the Participant and the Participant's beneficiaries.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that 50% of the shares of Company Stock obtained by the Participant upon the exercise of the Option shall not be tradable until the Participant owns enough shares,

measured using the average price per share of all shares of Company Stock the Participant owns outright, stock or stock units held in deferred compensation plans, including tax-qualified retirement plans, and time-based restricted stock, to meet or exceed 300% of the Participant's salary.

9. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

10. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

11. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

12. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

13. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

14. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie, Jr.

Its: Chairman of the Board

**EXHIBIT A**

The number of shares of Company Stock subject to the Option that shall be exercisable shall be determined as follows:

For the purposes of this Grant, the Company's net income will be adjusted for certain non-recurring items related to the initial public offering (the "IPO"), impairments, the settlement of income tax audits, changes in benefit plan costs that are not related to management decisions, effects resulting from changes in accounting principles and other items.

At IPO, a "Conditional" award was granted at 175% of the Participant's target award. The conditional award will only be earned based on the Company's actual performance for 2007 and 2008. The number of shares subject to the Option to become exercisable will be determined by comparing (1) the sum of the Company's actual net income for 2007 and 2008 to (2) the sum of the Company's forecasted net income at the date of Grant for 2007 and 2008. Awards earned based on performance will become exercisable on January 1, 2010. If the sum of actual net income is 100% of the sum of forecasted net income at the time of this Grant, then 100% of the Participant's target award will be earned. If the sum of actual net income is 80% of the sum of forecasted net income at the time of this Grant, then 25% of the Participant's target award will be earned. No award will be earned if actual net income is less than 80% of the forecast. A maximum award of 175% of the target award will be earned if the sum of actual net income is 120% or more of the sum of forecasted net income at the time of this Grant. The formula determining the percentage of the target award that will be earned is  $y = 3.75x - 2.75$ , where x equals the percentage achievement of net income forecasted for 2007 and 2008.

Below is an example for a Participant with a conditional grant of an Option to purchase 23,314 shares of Company Stock:

**Conditional Grant**

Target Award		13,322	shares
Maximum Grant Factor	x	<u>1.75</u>	
Conditional Grant (at maximum)		<u>23,314</u>	shares

**Earned Award**

2007-2008 Net Income Actual		\$320.0	
2007-2008 Net Income Forecast	/	<u>\$300.0</u>	
Achievement (of forecast)		106.67%	
	x	<u>3.75</u>	
		4.0001	
	-	<u>2.7500</u>	
Percentage Adjustment		125.01%	
Target Award	x	<u>13,322</u>	shares
Award Earned		<u>16,655</u>	shares

NOTE: All values shown in this example are illustrative only.

AMERICAN WATER WORKS COMPANY, INC.  
2007 OMNIBUS EQUITY COMPENSATION PLAN

RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of April 22, 2008 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, in connection with the initial public offering of the shares of common stock of the Company, par value \$0.01 per share, (the "Company Stock"), the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined that, in accordance with the terms of the Participant's letter, dated August 27, 2007, the Participant's contingent cash award will be converted to an equity award (the "Equity Award") for shares of Company Stock;

WHEREAS, the Equity Award is comprised of two separate grants, a nonqualified stock option and a restricted stock unit grant; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such restricted stock unit shall be memorialized in this Grant.

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ units (the "Restricted Stock Units"), which is equivalent to 175% of the Participant's target award. Each unit (a "Unit") shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).
2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the "Restricted Stock Unit Account") for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.
3. Vesting.
  - (a) Except as provided in subparagraphs (b), (c), (d) or (e) below, in order to become vested in the Restricted Stock Units the Participant must continue to be employed by, or

providing service to, the Employer (as defined in the Plan) from the Date of Grant through January 1, 2010; provided, however, that the number of Units that shall become vested on January 1, 2010 (the "Service Date") shall be determined based on the satisfaction of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals"). The Committee shall certify the level of achievement of the Performance Goals, which certification shall occur as soon as administratively practicable after January 1, 2009, but not later than ninety (90) days following January 1, 2009, (the "Certification Date"). Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited.

(b) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Participant or the Participant's beneficiary, as applicable, shall become vested in the Restricted Stock Units as a result of the Participant's termination for death or Total Disability; provided, however, that the number of Units that shall become vested shall be determined based on the satisfaction of the Performance Goals. No vesting of the Units shall occur until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date. Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals shall be forfeited as of the Certification Date and the Participant or the Participant's beneficiary, as applicable, shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If at any time prior to the Service Date the Participant's employment or service with the Employer is terminated on account of Normal Retirement (as defined below), the Participant shall become vested in the Restricted Stock Units as a result of the Participant's termination for Normal Retirement; provided, however, that the number of Units that shall become vested shall be determined based on the satisfaction of the Performance Goals and such number of Units that shall become vested shall be pro rated, with such pro ration determined by taking the total number of Units subject to the Restricted Stock Unit that become vested based on the satisfaction of the Performance Goals, multiplied by a fraction, the numerator of which is the number of whole months that the Participant was employed by, or providing service to, the Employer from January 1, 2007 to the date on which the Participant's employment or service with the Employer terminated on account of Normal Retirement (with the month in which the Participant terminating counting as a full month) and the denominator of which is thirty-six (36). No vesting of the Units shall occur until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date. Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals, along with the pro rata portion of the Units that do not become vested as described above, shall be forfeited as of the Certification Date and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer,



that the Participant has attained age 62 and been employed or provided service with the Employer for at least five (5) years.

(d) If at any time prior to the Service Date the Participant's employment or service with the Employer terminates for any reason other than death, Total Disability or Normal Retirement, all of the Units subject to the Restricted Stock Unit shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(e) If at any time prior to the Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, then the Restricted Stock Unit shall become vested as of the date of the Change of Control (the "Change of Control Date"); provided, however, that the number of Units that shall become vested as of the Change of Control Date shall be determined based on the satisfaction of the Performance Goals as of the (i) date of the Change of Control, if the Change of Control occurs prior to the Certification Date, with such criteria adjusted using actual performance through the most recent reporting period prior to the Change of Control as compared to the forecast, or (ii) Certification Date, if the Certification Date occurs prior to the date of the Change of Control. No vesting of the Units shall occur until the Committee has certified the level of achievement of the Performance Goals, which certification shall occur on the Certification Date or the Change of Control Date, if earlier. Any portion of the Restricted Stock Unit that does not become vested because of the failure to fully satisfy the Performance Goals, as adjusted pursuant to this subparagraph, shall be forfeited as of the Certification Date or Change of Control Date, if earlier, and the Participant shall not have any rights with respect to the vesting or the redemption of the portion of the Restricted Stock Unit that has become forfeited. For purposes of this Agreement, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed by the Company on: (i) the Service Date, or as soon as administratively practicable thereafter, but not later than thirty (30) days following the Service Date, if the Participant continues to be employed by, or provide service to the Employer, from the Date of Grant to the Service Date; (ii) the Certification Date, or as soon as administratively practicable thereafter, but not later than thirty (30) days following the Certification Date, if the Participant terminates employment or service with the Employer for death, Total Disability or Normal Retirement on or prior to the Certification Date, (iii) the date on which the Participant terminates employment or service with the Employer on account of death, Total Disability or Normal Retirement, or as soon as administratively practicable thereafter, but not later than thirty (30) days following such termination of employment or service with the Employer, if the Participant terminates employment or service with the Employer for death, Total Disability or Normal Retirement after the Certification Date, but prior to the Service Date; or (iv) the Change of Control Date, if earlier than the Service Date (collectively, the "Redemption Date"). On the Redemption Date (or, if

applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that have become vested pursuant to Paragraph 3 will be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution of such shares of Company Stock, which shall be issued under the Plan. Notwithstanding the foregoing, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Redemption Date for the Restricted Stock Units shall not be on the occurrence of the Change of Control, but instead shall be the date described in clauses (i), (ii) or (iii) above, as applicable, as if no Change of Control occurred, or, if elected, the Deferred Date (as defined below). All redemptions pursuant to this Paragraph 4 shall be deemed as a separate payment for purposes of section 409A of the Code.

5. Deferrals.

(a) No later than December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date of any portion of, or all of, the Restricted Stock Units that vest, to a date that occurs after the Redemption Date by completing the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit B or as subsequently modified to comply with the requirements of section 409A of the Code; provided, however, that if the Redemption Date occurs at any time during the 2008 calendar year, the Participant's deferral election pursuant to this Paragraph 5(a) shall not become effective. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(b) After December 31, 2008, the Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit B or as subsequently modified to comply with the requirements of section 409A of the Code. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.

(c) If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date." All redemptions pursuant to this Paragraph 5 shall be deemed as a separate payment for purposes of section 409A of the Code.

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are declared with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the

Participant's Restricted Stock Unit Account at the time of the declaration of the dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends created to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account. Each cash payment pursuant to this Paragraph 6 shall be deemed as a separate payment for purposes of section 409A of the Code.

7. Change of Control. Except as set forth in Paragraph 3(e) of this Grant, the provisions set forth in the Plan applicable to a Change of Control shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees:

determination policy, then all payments to the Participant pursuant to this Agreement shall be postponed for a period of six months following the Participant's separation from service from the Employer. The postponed amounts shall be paid to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer, and any amounts payable to the Participant after the expiration of such six (6) month period under this Agreement shall continue to be paid to the Participant in accordance with the terms of this Agreement. If the Participant dies during such six-month period and prior to the payment of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be paid to the personal representative of the Participant's estate within sixty (60) days after the Company receives notice of the Participant's death, and any amounts not delayed shall be paid to the personal representative of the Participant's estate in accordance with the terms of this Agreement.

*[SIGNATURE PAGE FOLLOWS]*

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie, Jr.

Its: Chairman of the Board

**EXHIBIT A**

The number of Units subject to the Restricted Stock Unit that shall be vested shall be determined as follows:

For the purposes of this Grant, the Company's net income will be adjusted for certain non-recurring items related to the initial public offering (the "IPO"), impairments, the settlement of income tax audits, changes in benefit plan costs that are not related to management decisions, effects resulting from changes in accounting principles and other items.

At the IPO, a "Conditional" award was granted at 175% of the Participant's target award. The conditional award will only be earned based on the Company's actual performance for 2007 and 2008. The number of Restricted Stock Units earned will be determined by comparing (1) the sum of the Company's actual net income for 2007 and 2008 to (2) the sum of the Company's forecasted net income at the Date of Grant for 2007 and 2008. Awards earned based on performance will vest on January 1, 2010. If the sum of actual net income is 100% of the sum of forecasted net income at the time of this Grant, then 100% of the Participant's target award will be earned. If the sum of actual net income is 80% of the sum of forecasted net income at the time of this Grant, then 25% of the Participant's target award will be earned. No award will be earned if actual net income is less than 80% of the forecast. A maximum award of 175% of the target award will be earned if the sum of actual net income is 120% or more of the sum of forecasted net income at the time of this Grant. The formula determining the percentage of the target award that will be earned is  $y = 3.75x - 2.75$ , where x equals the percentage achievement of net income forecasted for 2007 and 2008.

Below is an example for a Participant with a conditional grant of 3,071 Restricted Stock Units:

**Conditional Grant**

Target Award		1,755	RSUs
Maximum Grant Factor	x	<u>1.75</u>	
Conditional Grant (at maximum)		<u>3,071</u>	RSUs

**Earned Award**

2007-2008 Net Income Actual		\$320.0	
2007-2008 Net Income Forecast	/	<u>\$300.0</u>	
Achievement (of forecast)		106.67%	
	x	<u>3.75</u>	
		4.0001	
		<u>2.7500</u>	
Percentage Adjustment		125.01%	
Target Award	x	<u>1,755</u>	RSUs
Award Earned		<u>2,194</u>	RSUs

***NOTE: All values shown in this example are illustrative only.***

EXHIBIT B  
SUBSEQUENT DEFERRAL ELECTION FORM

**PART A. TIME OF REDEMPTION (only complete subpart (a) or (b), but not both)**

- (a) Election to Defer Redemption of Restricted Stock Units No Later Than December 31, 2008

**THIS SUBPART (a) SHOULD ONLY BE COMPLETED IF YOU ARE MAKING THE ELECTION NO LATER THAN DECEMBER 31, 2008; PROVIDED, HOWEVER, THAT THIS ELECTION SHALL NOT BECOME EFFECTIVE IF THE REDEMPTION DATE OCCURS IN THE 2008 CALENDAR YEAR.**

I, \_\_\_\_\_, (the "Participant") hereby irrevocably elect to have the \_\_\_\_\_ Restricted Stock Units (the "Deferred Units") that were granted to me on \_\_\_\_\_, 200\_\_ pursuant to the Restricted Stock Unit Grant Agreement (the "Agreement") under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") that would have been redeemed by American Water Works Company, Inc. (the "Company") on \_\_\_\_\_, 2\_\_ (the "Redemption Date"), to instead be redeemed on \_\_\_\_\_, 2\_\_ (the "Deferred Date"), which is a date that is no sooner than the original Redemption Date for such Restricted Stock Units.

- (b) Election to Defer Redemption of Restricted Stock Units After December 31, 2008.

**THIS SUBPART (b) SHOULD ONLY BE COMPLETED IF YOU ARE MAKING THE ELECTION AFTER DECEMBER 31, 2008.**

I, \_\_\_\_\_, (the "Participant") hereby irrevocably elect to have the \_\_\_\_\_ Restricted Stock Units (the "Deferred Units") granted to me on \_\_\_\_\_, 2\_\_ pursuant to the Restricted Stock Unit Grant Agreement (the "Agreement") under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") that would have been redeemed by American Water Works Company, Inc. (the "Company") on \_\_\_\_\_, 2\_\_ (the "Redemption Date"), to instead be redeemed on \_\_\_\_\_, 2\_\_ (the "Deferred Date"), which is a date that is no earlier than five (5) years from the Redemption Date under the Agreement. This election is being made at least twelve (12) months prior to the date on which the Restricted Stock Units were scheduled to be redeemed.

**PART B. ACKNOWLEDGMENT**

I understand and expressly agree that the Deferred Date for the Deferred Units shall be the date I specified in Part A(a) or (b) above, and I will not be entitled to receive a redemption of the Deferred Units on an earlier date. I also understand and expressly agree that this deferral election is irrevocable, and, with respect to an election made pursuant to (i) Part A(a) above, shall not take effect if the Redemption Date occurs in the 2008 calendar year, and (ii) Part A(b) above, shall not take effect until twelve (12) months after the date on which I make this election.

I also understand and agree that this election only applies to those Restricted Stock Units in which I become vested as described in Paragraph 3 of the Agreement.

**PARTICIPANT SIGNATURE**

\_\_\_\_\_

Date: \_\_\_\_\_

Receipt Acknowledged:

AMERICAN WATER WORKS COMPANY, INC.

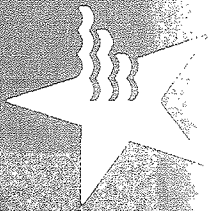
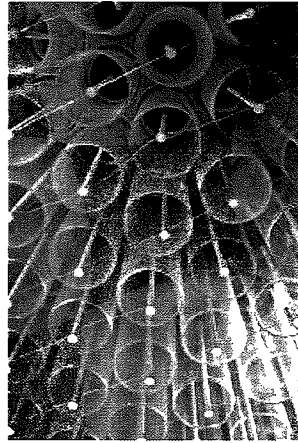
By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_



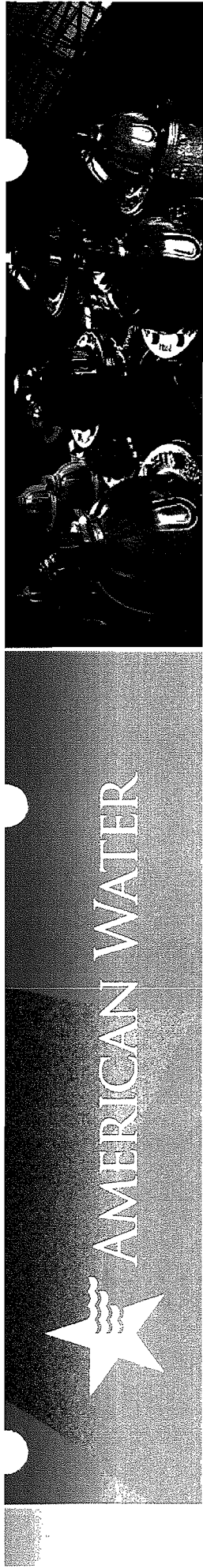


AMERICAN WATER WORKS ASSOCIATION

# American Water Works Company, Inc.

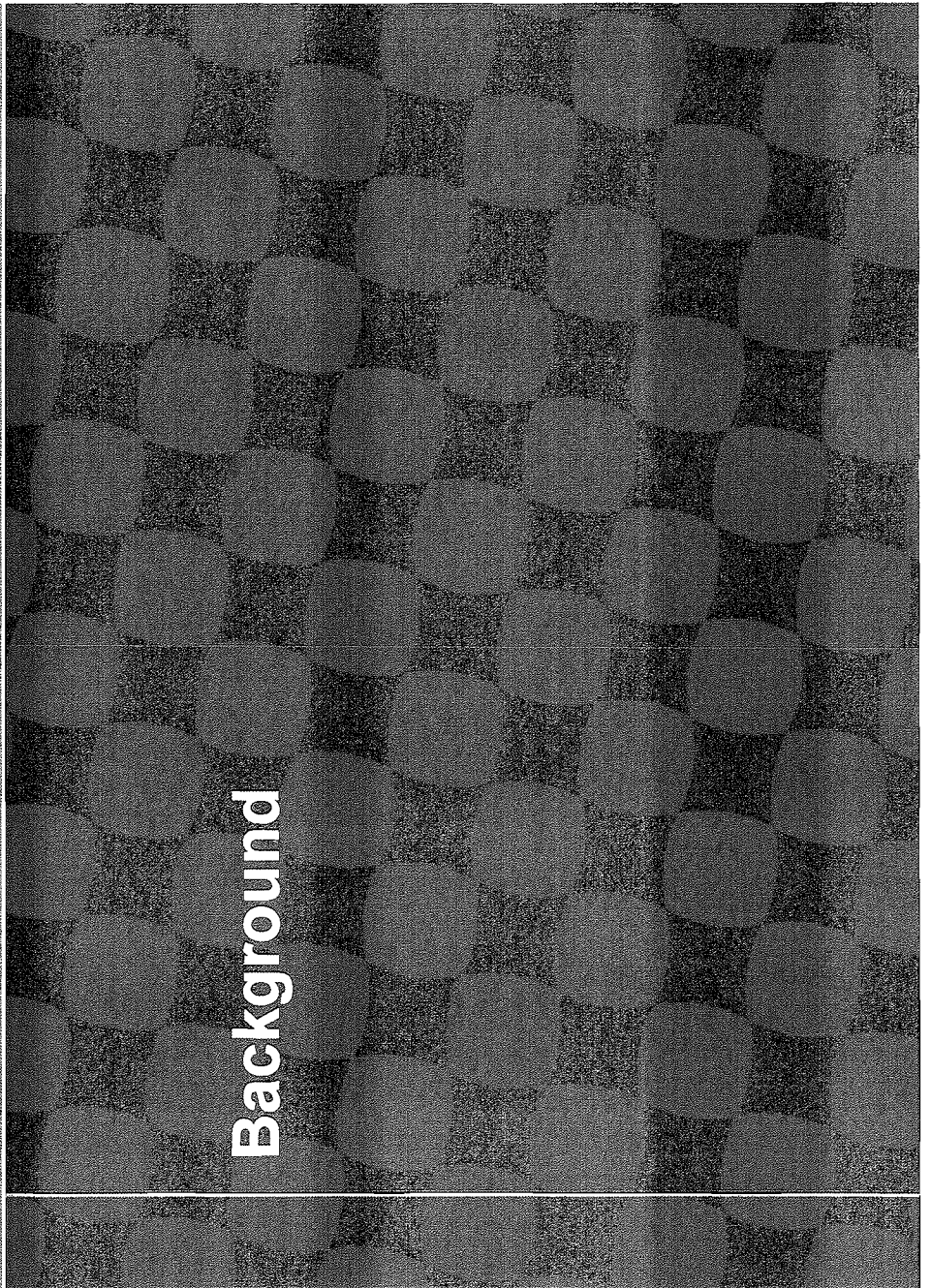
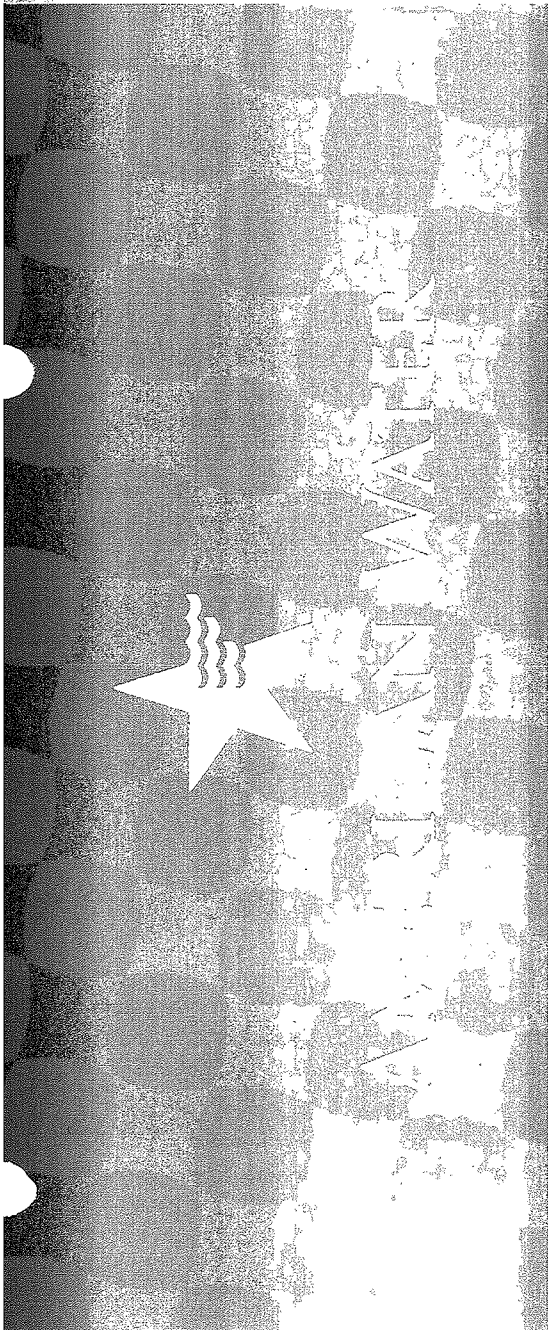
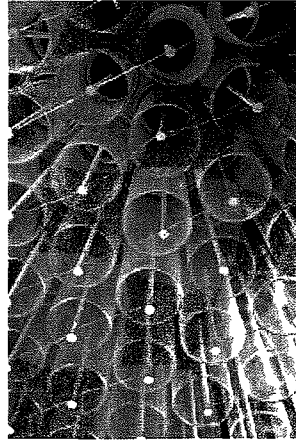
Equity Awards

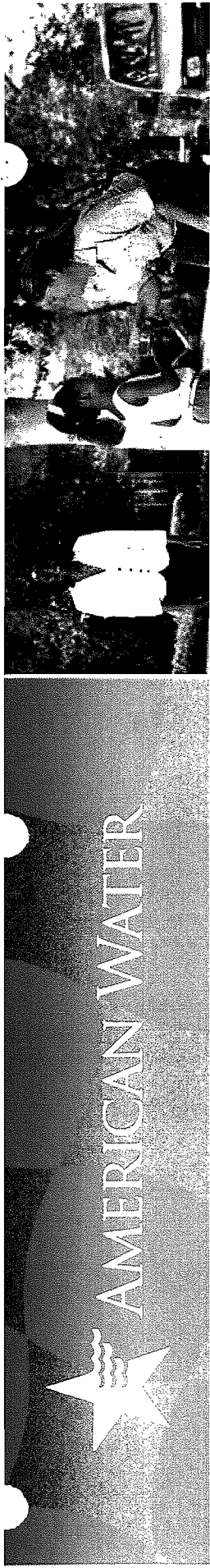
ML1 – ML3



## **Why we're here today**

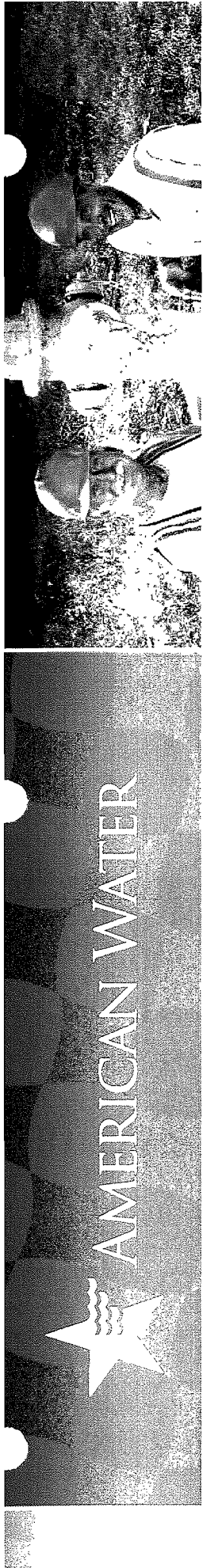
- **Discuss the new American Water Equity Awards**
- **Provide information about:**
  - How this award fits into your total compensation
  - How the award works
- **Answer your questions**



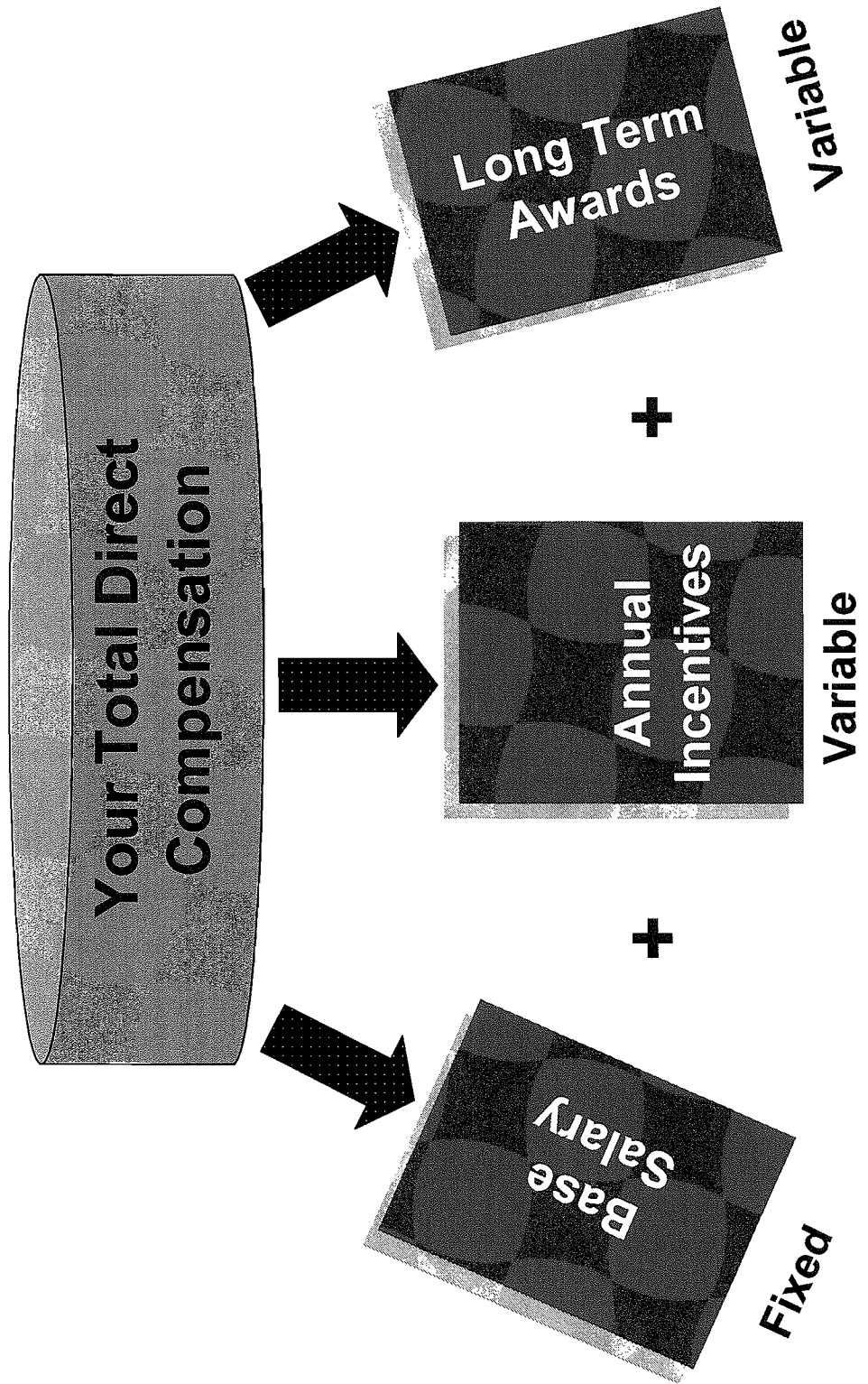


## **Our leadership drives our success**

- **As leaders, you hold the key to American Water's success**
- **You have the knowledge and expertise to:**
  - Drive performance
  - Deliver financial and strategic gains



# Total executive compensation at American Water





## Benefits of the Equity Award

- **Strengthens your link to American Water's shareholders**
- **Encourages value-creating decisions over time**
- **Aligns compensation with our Company philosophy**
- **Helps ML1–ML3 employees meet share ownership goals**
  - ML1–ML3 employees must own shares of American Water common stock over a period of time to be determined by the Board
  - Ownership goals vary by management level

**If your management level is:      You must own shares equal to:**

<b>ML1</b>	Three times base salary
<b>ML2</b>	Two times base salary
<b>ML3</b>	One times base salary

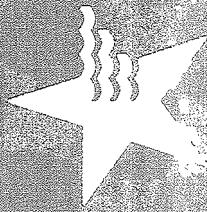
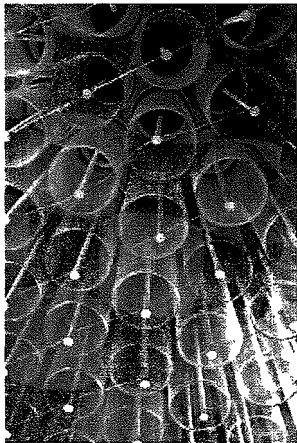


## Ownership example

### *Illustrative Assumptions*

Number of stock options granted:	16,000
Grant price:	\$21.50
Exercise price:	\$30.00
Tax rate:	35.0%
Retention ratio:	50% of after-tax shares

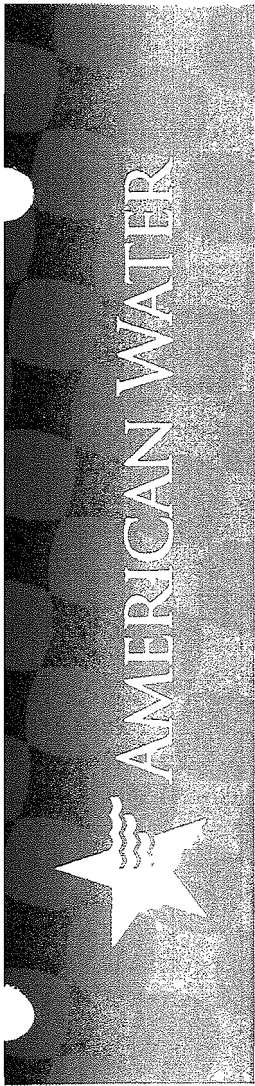
- **Pre-tax gain at exercise: \$136,000.00 [16,000\*(\$30-\$21.50)]**
- **After-tax gain: \$88,400.00 [\$136,000.00\*(1-0.35)]**
- **Number of shares owned: 2,947 (\$88,400.00/\$30)**
- **Minimum shares retained: 1,474**



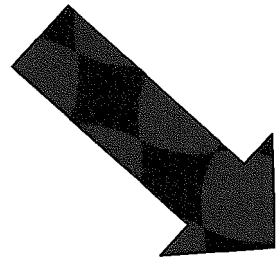
AMERICAN WATER

About the Equity Awards



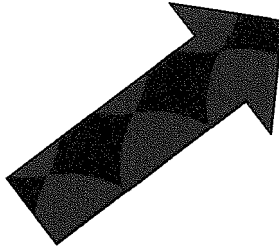


## Your Equity Award mix



**Stock Options**  
(60% of award value)

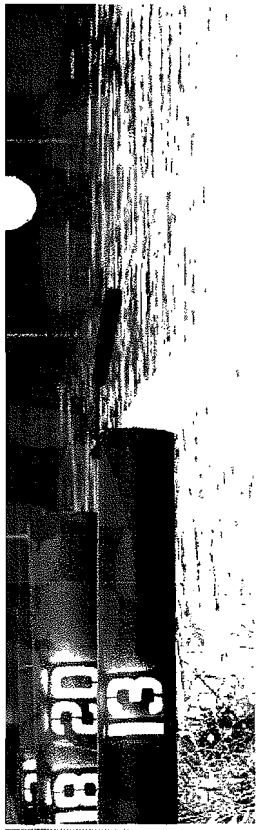
The right to purchase American Water stock at a given price (the “exercise price”) before the end of the option term



**Restricted Stock Units (RSUs)**  
(40% of award value)

Awards that represent “notional” shares of American Water stock





## How Equity Awards are determined



1

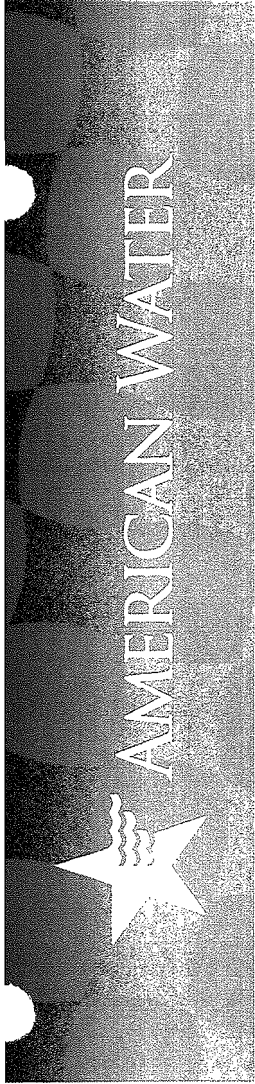
**Conditional award granted** at initial public offering (IPO) (determined by RWE)

2

**Company performed** measured at end of performance period (when audited financial results are available)

3

**Final award determined** based on actual company performance at the end of the performance period

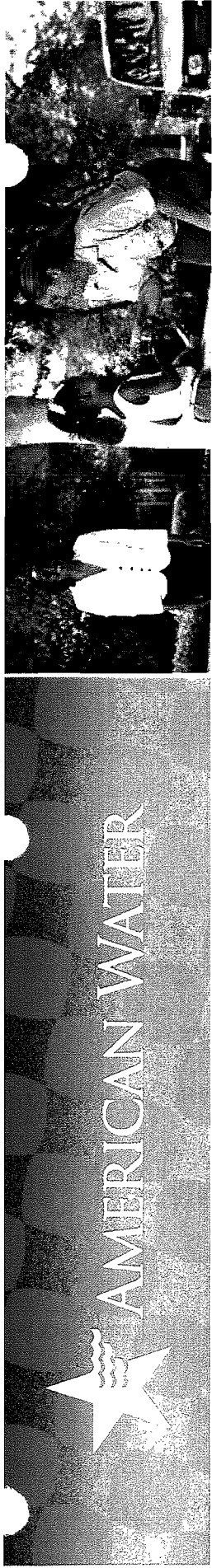


## How Equity Awards are determined (continued)

1

- You have been granted two conditional awards:
  - Grant #1: Vests January 1, 2010
  - Grant #2: Vests January 1, 2011
- Conditional award amounts are determined by RWE

**Conditional award granted at IPO (determined by RWE)**



## How Equity Awards are determined (continued)

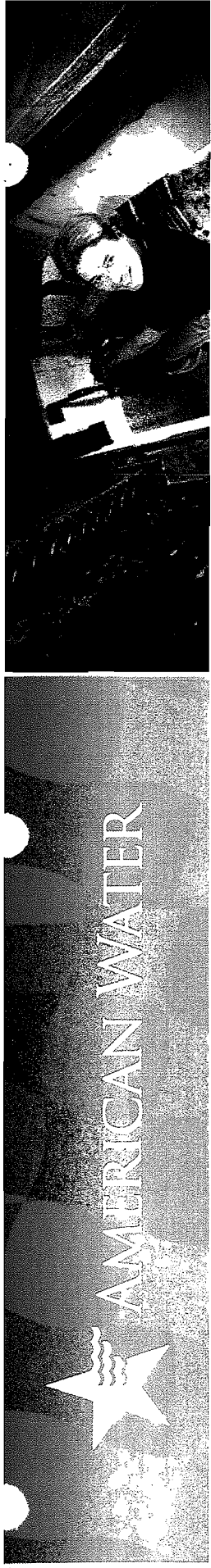
2

- **Performance metrics**

- For Grant #1: American Water's actual 2007/2008 net income (NI) vs. forecasted 2007/2008 NI
- For Grant #2: American Water's actual 2008/2009 net income (NI) vs. forecasted 2008/2009 NI

- **Company performance assessed when audited financial results are available**

**Company performance measured at end of performance period (when audited financial results are available)**

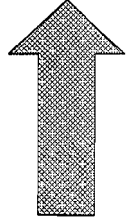


## How Equity Awards are determined (continued)

3

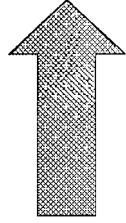
**Final award determined based on actual company performance\* at the end of the performance period**

If actual NI meets or exceeds 120% of forecasted NI ...



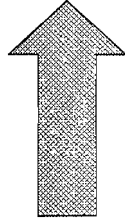
Final award equals full value of conditional award

If actual NI is below 120% of forecasted NI ...



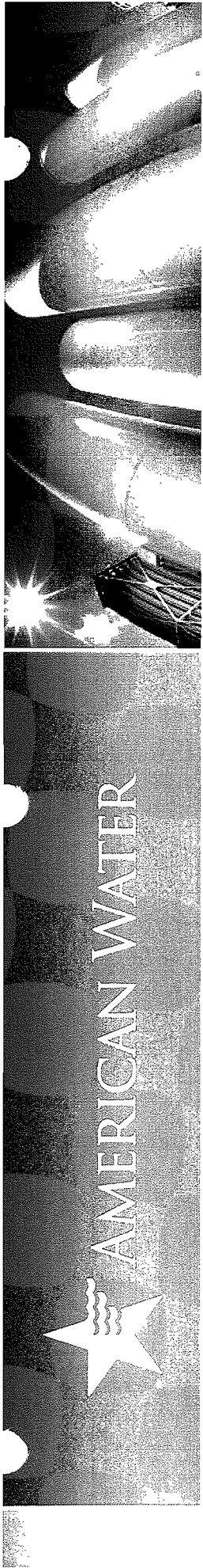
Final award is reduced accordingly

If actual NI does not meet certain thresholds ...



No award will be earned

\*i.e., Actual NI vs. forecasted NI



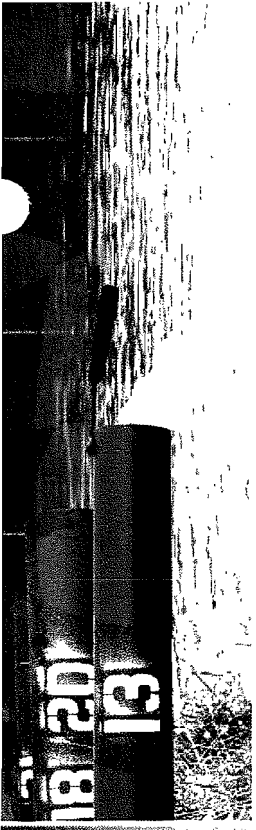
## Award example

### *Illustrative Assumptions*

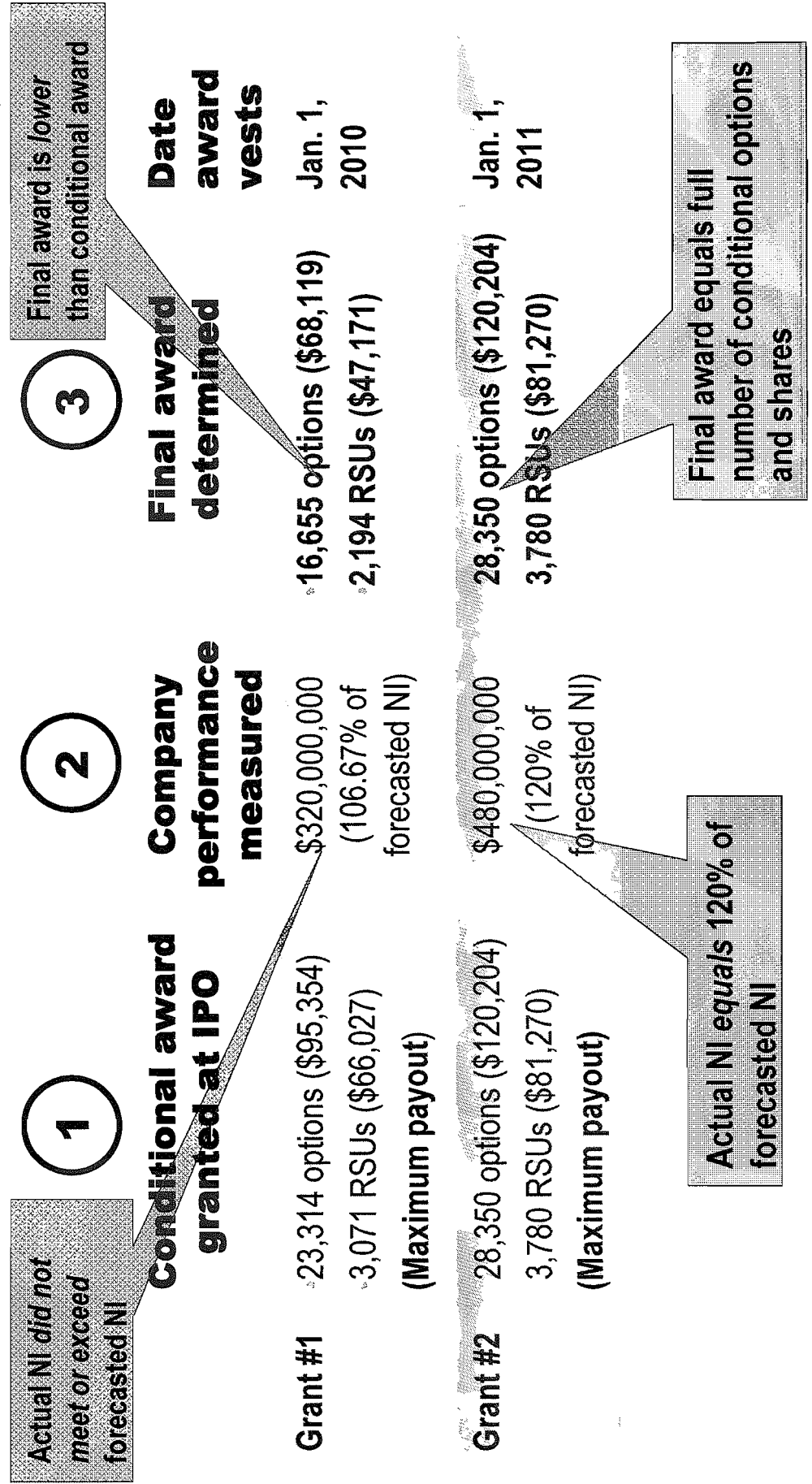
	Grant #1	Grant #2
Option Value*	\$4.09 per share	\$4.24 per share
RSU Value	\$21.50 per share	\$21.50 per share

\*Difference in option values: Grant #2 has a higher market value than Grant #1, since there is more time under Grant #2 for the share price to exceed \$21.50.

**Note:** For illustrative purposes (for each Grant), we used the same option and RSU values for the Conditional Award at IPO and for the Final Award.

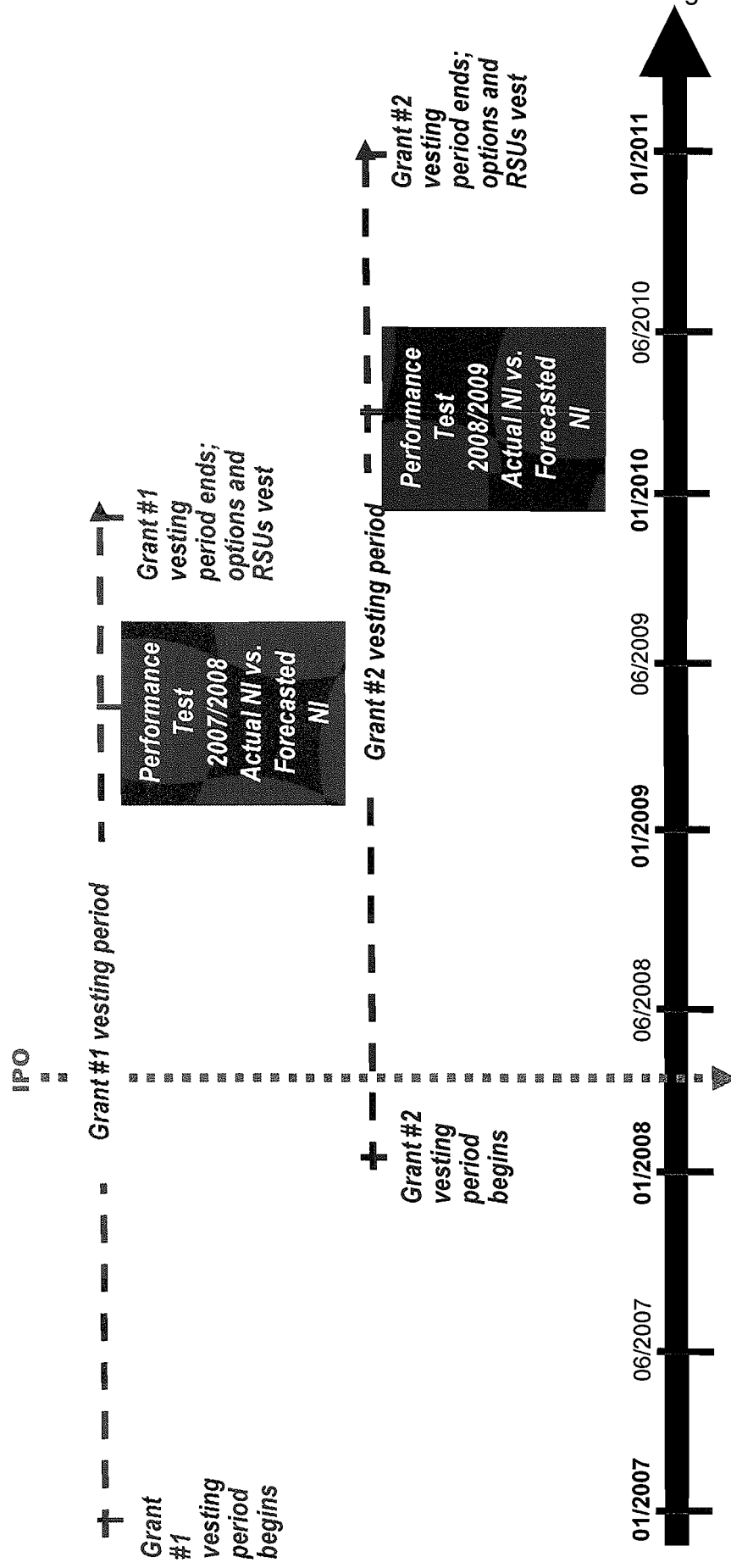


## Award example

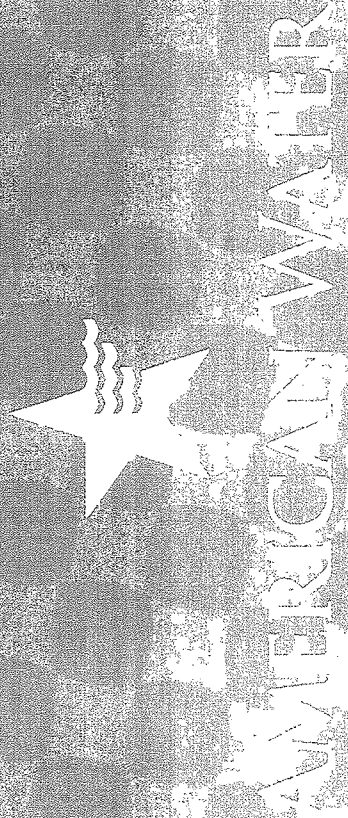
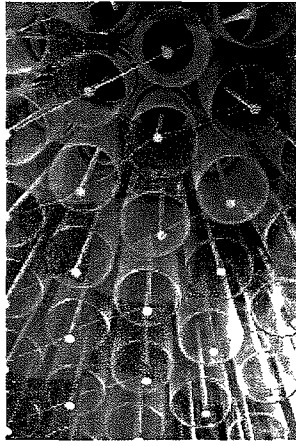




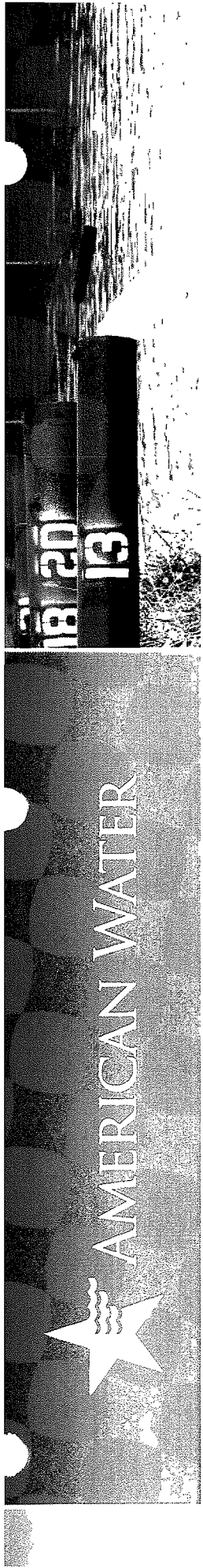
# Timing and distribution of awards







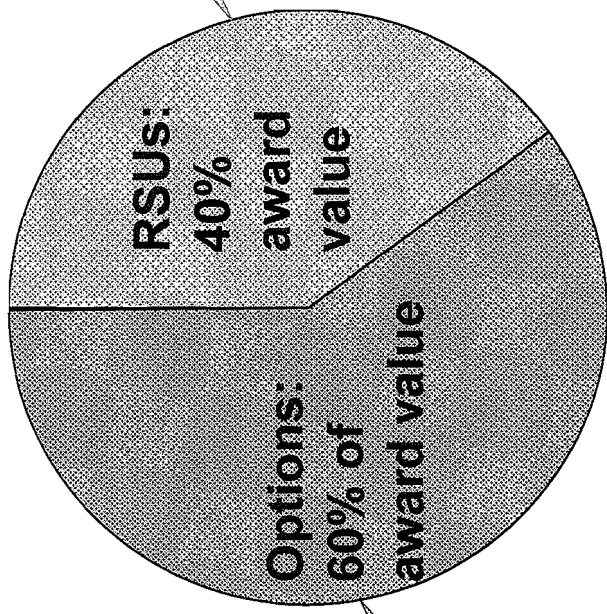
## About Stock Options and Restricted Stock Units (RSUs)



**You receive 60% of your Equity Award value in options and 40% of your award value in RSUs**

**Let's assume the total Equity Award value is \$100,000**

**\$40,000 of the award value will be received as RSUs**



**\$60,000 of the award value will be received as options**



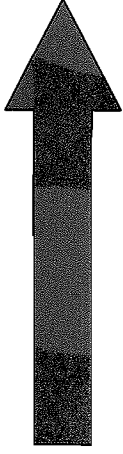
## What are options and how will they vest?

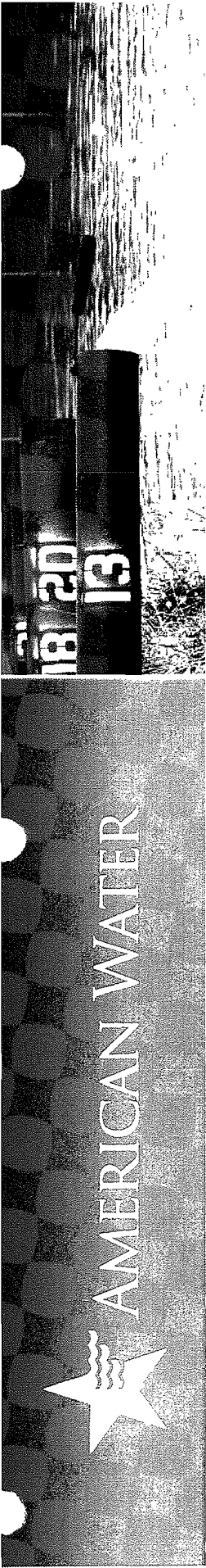
- **Options are the right to purchase Company stock at a set “exercise price”**
  - Value is the *difference* in price between the then current share price and exercise price at Grant
- **Options vest after three years**
  - Options under Grant #1 vest January 1, 2010
  - Options under Grant #2 vest January 1, 2011
- **Options may be purchased (or “exercised”) once vested**
  - May be exercised for an additional four years after vesting date
  - You forfeit all rights to the options if you do not take action within that four-year period



## Determining the value of options

- **To calculate the number of options you are granted:**
  - Divide (a) the monetary value of the option component of your Equity Award, by (b) the value of an option
- **Option value calculated using the Black-Scholes model**
  - Black-Scholes value determined by multiplying the underwriting stock price at IPO by the Black-Scholes “ratio”
- **Example: Let’s calculate the number of options under Grant #1 assuming:**
  - Option component of Grant #1 had a value of \$68,119;
  - Current stock price was \$21.50 per share; and
  - Black-Scholes Ratio was 19.02%

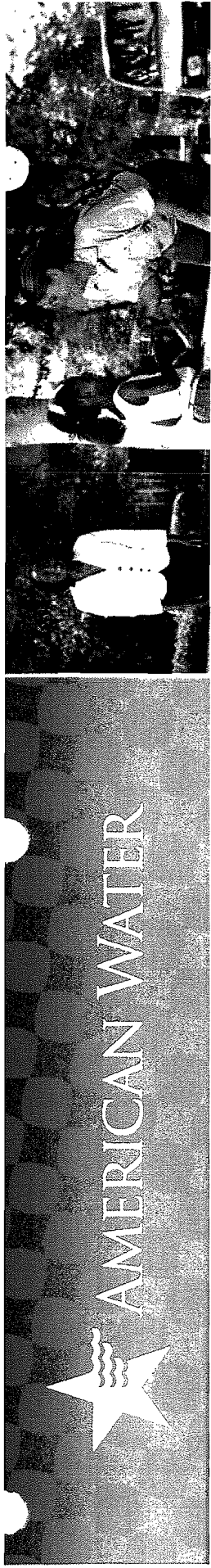
$\frac{\$ \text{ Value of Award}}{\div \text{ Black-Scholes Value}} = \text{ \# of Options}$		$\frac{\$68,119}{\div (\$21.50 \times 19.02\%)} = 16,655 \text{ Options}$
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## Exercising your options

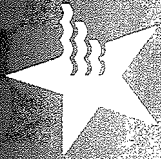
- **Cash**
  - Purchase the stock
  - Use personal funds to cover exercise price, taxes and transaction fees
- **Stock swap**
  - Purchase the stock
  - Sell American Water stock you already own to fund the exercise
- **Exercise and sell**
  - Purchase the stock
  - Sell only enough to cover exercise price, taxes and transaction fees
  - May also sell additional shares and receive net proceeds in cash

**Please note: All employees and directors are subject to the Company's Insider Trading Policy.**



## **What are restricted stock units (RSUs), and how will they vest?**

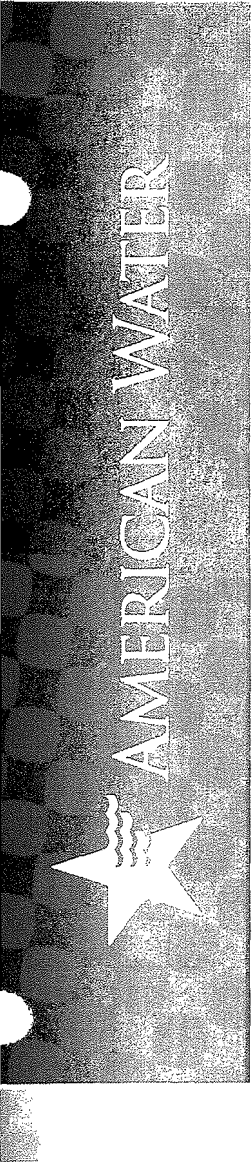
- **Each RSU represents a “notional” share of American Water stock**
- **RSUs vest after a period of three years**
  - Grant #1: RSUs vest January 1, 2010
  - Grant #2: RSUs vest January 1, 2011
- **“Vesting” means RSUs become yours at the then current market value of American Water’s stock**
- **Unlike options, shares are equal to the *full* value of American Water’s stock**
  - You own the full value of the stock after three years
  - The shares never expire



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## What happens when your RSUs vest?

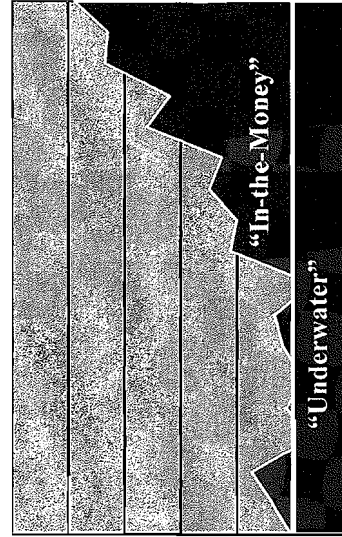
- **Taxes are due at vesting (more on this later)**
- **When your RSUs vest, you can:**
  - Keep or sell the shares
  - Defer receiving all or a portion of the shares until after the scheduled distribution date
    - ◆ You must make the election to defer by December 31, 2008
- **Dividends, if payable:**
  - Will accrue in a “notional” personal account until your RSUs vest; then
  - Will be paid in cash at the end of the vesting period
- **You may vote on those shares — once vested — for as long as you own them**
  - ML1–ML3 executives are required to accumulate and own shares of American Water stock
  - Stock ownership goals vary by management level



## How do options differ from RSUs?

- Options = value at any point in time is the *difference* between American Water's current stock price and the exercise price
- RSUs = the *full value* of American Water's share price (once vested)

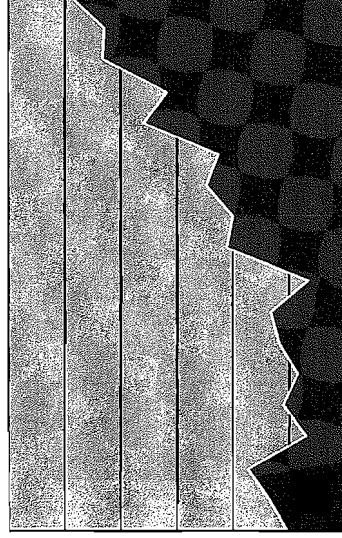
### Options



Value of option is the difference between the current stock price and exercise price

Time

### RSUs



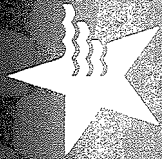
Current full value

Value of RSU, once vested, is the full current stock price

Time

**Please Note:** These charts are for illustrative purposes only and do not reflect actual stock performance.



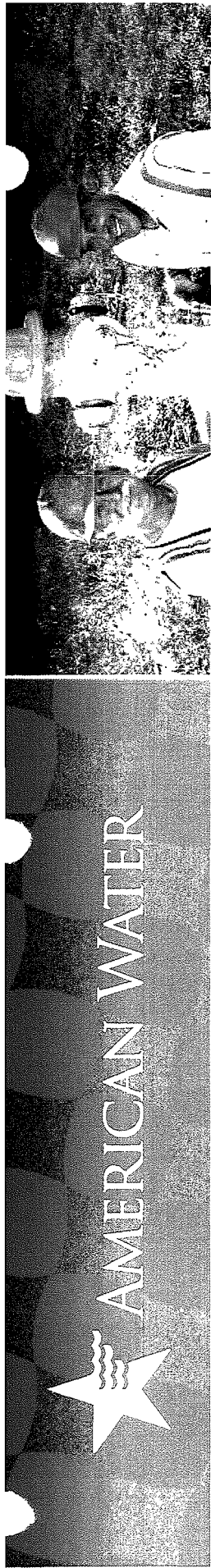


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## Options vs. RSUs — a side-by-side comparison

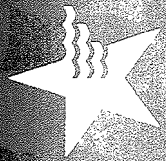
	Options	RSUs
<b>Vesting</b>	<ul style="list-style-type: none"> <li>■ Fully vested after three years</li> </ul>	<ul style="list-style-type: none"> <li>■ Fully vested after three years</li> </ul>
<b>What you get at vesting</b>	<ul style="list-style-type: none"> <li>■ Right to exercise your option and receive the amount of any increase in the value of American Water's stock above the exercise price</li> </ul>	<ul style="list-style-type: none"> <li>■ The <i>full</i> value of an American Water share</li> </ul>
<b>Cost of ownership</b>	<ul style="list-style-type: none"> <li>■ Pay exercise price at exercise; you may select to pay in cash or sell shares to cover the exercise price and expenses</li> </ul>	<ul style="list-style-type: none"> <li>■ No cost</li> </ul>
<b>Taxed on</b>	<ul style="list-style-type: none"> <li>■ Gain in value between price at grant and price at exercise</li> <li>■ Gains if you later sell shares</li> </ul>	<ul style="list-style-type: none"> <li>■ Value at vesting</li> <li>■ Gains if you later sell shares</li> </ul>
<b>Expiration</b>	<ul style="list-style-type: none"> <li>■ Expire four years after vesting date</li> </ul>	<ul style="list-style-type: none"> <li>■ Never expire</li> </ul>



## How your Equity Award is taxed

	Options	RSUs
<b>At grant</b>	<ul style="list-style-type: none"> <li>You owe nothing</li> </ul>	<ul style="list-style-type: none"> <li>You owe nothing</li> </ul>
<b>On the vesting date</b>	<ul style="list-style-type: none"> <li>You owe nothing (unless you exercise on that date)</li> </ul>	<ul style="list-style-type: none"> <li>You will be taxed on the current value of your shares</li> </ul>
<b>At exercise</b>	<ul style="list-style-type: none"> <li>You are taxed on any increase in the value of American Water's stock above the exercise price of the option</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
<b>At the time you sell your shares</b>	<ul style="list-style-type: none"> <li>You are taxed on any additional increase in the value of the shares (from exercise)</li> </ul>	<ul style="list-style-type: none"> <li>You will be taxed on any increase in the value of the shares (from the vesting date)</li> </ul>

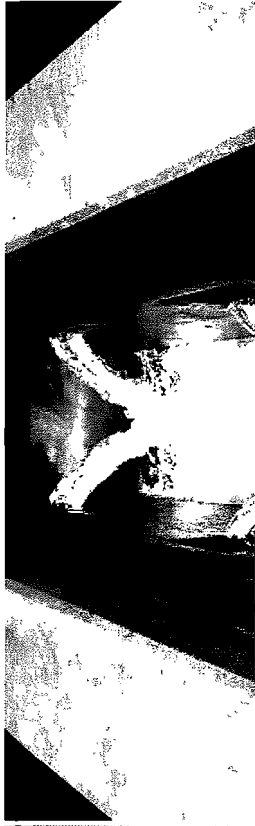
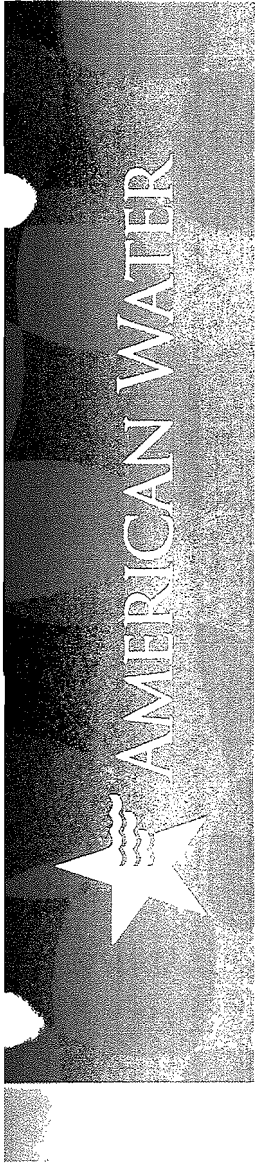
**Please note:** Consult your tax advisor to learn more about your individual tax situation.



AMERICAN WATER

## Managing your Equity Award through E\*TRADE

- **Equity Award account is set up for you through E\*TRADE**
  - [www.etrade.com](http://www.etrade.com)
  - 1-800-838-0908
- **Contact E\*TRADE for:**
  - Important information on your awards and vesting
  - Easy-to-use modeling and transaction tools
- **You must first activate your E\*TRADE account to use the system**
  - Refer to the packet of materials you received from E\*TRADE for activation instructions



## Resources

- **Debbie Krauss-Kelleher**

  - 856-346-8295

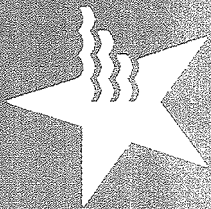
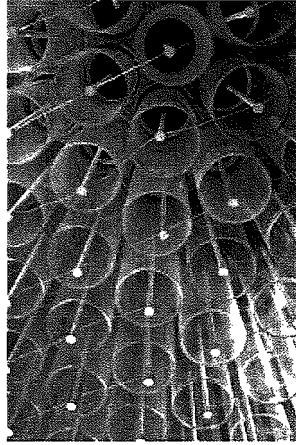
- **Dan Shallow**

  - 856-346-8285

- **E\*TRADE**

  - 1-800-838-0908

  - [www.etrade.com](http://www.etrade.com)



AMERICAN WATER

Questions?

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

25. Defined benefit pension expense. Refer to the Company's response to AG-1-49.
- a. Please identify each KAW affiliate that has treated the actuarial reports for the American Water Works Company defined benefit pension plan as public, non-confidential documents in their respective rate cases during 2008, 2009 and 2010.
  - b. Please explain fully and in detail why the actuarial reports for the American Water Works Company defined benefit pension plan are confidential for KAW but not for other affiliated water companies in their respective rate cases during 2008, 2009 and 2010.
  - c. Please provide the comparable actuarial reports for 2008 and 2009.
  - d. Explain fully and in detail why the 2009 amount listed in response to AG-1-49 part c is more than double the respective amounts listed for 2008 and 2009.
  - e. Show in detail how the defined benefit pension plan expense for the FTY (listed in response to AG-1-49 part b) was determined and reconcile that amount to the actuarial reports. Identify, quantify and explain each reconciling item.
  - f. Do the amounts listed in response to AG-1-49 parts a, b and c, include amounts for the American Water Works Company defined benefit pension plan that were/are charged to KAW from the affiliated Service Company in the affiliated Management Fee? If not, explain fully why not, and provide the affiliate charged amounts by account.
  - g. Are the amounts listed in AG-1-49 parts a, b and c based on FAS 87? If not, explain fully why not, and provide the FAS 87 amounts for each period.

**Response:**

- a. The actuarial reports in past KAW rate cases and other AWW subsidiary rate cases have been provided without confidential protection. The AWW position on providing actuarial reports under confidentiality protection is

recent and new. The change was driven by the statement on the front page of the actuarial reports prepared by the Company's actuary that states, "This report is confidential and intended solely for the information and benefit of the immediate recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification, Reliances and Distribution Section herein." The Company realizes that actuarial information about its benefit plans is an important aspect of supporting rate requests, and is providing the information to the parties to rate cases who need to review the data, but providing it under confidential protection based upon discussions with the actuary. AWW subsidiaries have been instructed to follow this practice in this and all future rate cases.

- b. Please see the response to subpart a. above.
- c. The actuarial reports for the Company's Defined Benefit Pension Plan and Defined Benefit OPEB plan have been previously supplied in response to AG-1-49d and AG-1-50d.
- d. The assumptions used by the actuary in determining the cost for each year are provided in the reports. The primary driver of the increase in FAS 87 costs for 2009 related to the financial crisis in the U.S. (and global) security markets. The significant reduction in the financial market indexes (i.e. DOW, S&P, NADAQ, etc.) has led to greatly reduced market returns on pension assets or in some case losses. The lower market returns and lower discount rates (tied to bond and treasury market conditions and forecasts) have resulted in higher FAS 87 pension costs to maintain the financial condition of the plan during 2009 than in earlier years where financial market conditions were much more favorable.
- e. It is not possible to reconcile the amounts as requested. The latest actuarial report provided in response to AG-1-49d, dated April 2010, provides a status of the Defined Benefit Pension Plan of AWW as of a point in time (January 1, 2010). This report is not nor is it intended to provide a projection of the FAS 87 pension costs for the forecasted test-year in this case. Please see the response to PSC-2-23 which provides the projections made by Towers Watson for 2010 and 2011 FAS 87 pension costs for the AWW Defined Benefit Plan and the allocation to KAW (page 19 of 21) and the impact on the Company's filing (a reduction of \$253,262 as shown on page 18 of 21). This information has been provided under confidential protection and should be available to the AG.

- f. No. The AWWSC pension cost is charged to KAW as AWWSC (Management Fee) Costs as outlined in the 1989 Service Company Contract. See the amounts charged to KAW from AWWSC below. As stated earlier these costs are embedded in the AWWSC fees.

2007	- \$320,759
2008	- \$357,706
2009	- \$610,036
Test Year ended May 2010	- \$593,487
Forecasted Test Year ended September 2011	- \$539,052

- g. Yes.

For the electronic version of this response, refer to KAW\_R\_AGDR2#25\_052410.pdf.



**THIS DOCUMENT CONTAINS  
CONFIDENTIAL INFORMATION**

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**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Sheila Miller**

28. Refer to the Company's response to AG-1-56. Please provide the attachment electronically in Excel.

**Response:**

See the excel file labeled as KAW\_R\_AGDR2#28\_052410.xls.

For the electronic version of this document, refer to KAW\_R\_AGDR2#28\_052410.pdf.