

# AMERICAN WATER WORKS COMPANY, INC.

## FORM 10-Q (Quarterly Report)

Filed 08/05/20 for the Period Ending 06/30/20

Address	1 WATER STREET CAMDEN, NJ, 08102-1658
Telephone	856-955-4001
CIK	0001410636
Symbol	AWK
SIC Code	4941 - Water Supply
Industry	Water Utilities
Sector	Utilities
Fiscal Year	12/31

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended **June 30, 2020**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **001-34028**

---

**AMERICAN WATER WORKS COMPANY, INC.**

(Exact name of registrant as specified in its charter)

---

**Delaware**

(State or other jurisdiction of incorporation or organization)

**51-0063696**

(I.R.S. Employer Identification No.)

**1 Water Street, Camden, NJ 08102-1658**

(Address of principal executive offices) (Zip Code)

**(856) 955-4001**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
<b>Common stock, par value \$0.01 per share</b>	<b>AWK</b>	<b>New York Stock Exchange</b>

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.).  Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Shares Outstanding as of July 31, 2020</u>
<b>Common Stock, \$0.01 par value per share</b>	<b>181,204,068</b>

---

## **TABLE OF CONTENTS**

		<b>Page</b>
<a href="#"><u>Forward-Looking Statements</u></a>		<a href="#"><u>1</u></a>
<a href="#"><u>Part I. Financial Information</u></a>		
Item 1.	<a href="#"><u>Consolidated Financial Statements</u></a>	<a href="#"><u>3</u></a>
Item 2.	<a href="#"><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>25</u></a>
Item 3.	<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	<a href="#"><u>39</u></a>
Item 4.	<a href="#"><u>Controls and Procedures</u></a>	<a href="#"><u>40</u></a>
<a href="#"><u>Part II. Other Information</u></a>		
Item 1.	<a href="#"><u>Legal Proceedings</u></a>	<a href="#"><u>41</u></a>
Item 1A.	<a href="#"><u>Risk Factors</u></a>	<a href="#"><u>42</u></a>
Item 2.	<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	<a href="#"><u>47</u></a>
Item 3.	<a href="#"><u>Defaults Upon Senior Securities</u></a>	<a href="#"><u>48</u></a>
Item 4.	<a href="#"><u>Mine Safety Disclosures</u></a>	<a href="#"><u>48</u></a>
Item 5.	<a href="#"><u>Other Information</u></a>	<a href="#"><u>48</u></a>
Item 6.	<a href="#"><u>Exhibits</u></a>	<a href="#"><u>49</u></a>
<a href="#"><u>Signatures</u></a>		<a href="#"><u>51</u></a>

\* \* \*

Throughout this Quarterly Report on Form 10-Q (“Form 10-Q”), unless the context otherwise requires, references to the “Company” and “American Water” mean American Water Works Company, Inc. and all of its subsidiaries, taken together as a whole. References to “parent company” mean American Water Works Company, Inc., without its subsidiaries.

## **FORWARD-LOOKING STATEMENTS**

Statements included in Part I, Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as “intend,” “plan,” “estimate,” “believe,” “anticipate,” “expect,” “predict,” “project,” “propose,” “assume,” “forecast,” “likely,” “uncertain,” “outlook,” “future,” “pending,” “goal,” “objective,” “potential,” “continue,” “seek to,” “may,” “can,” “should,” “will” and “could” or the negative of such terms or other variations or similar expressions. Forward-looking statements may relate to, among other things: the Company’s future financial performance, liquidity and cash flows; rate and revenue adjustments, including through general rate case filings, filings for infrastructure surcharges and other governmental agency authorizations and filings to address regulatory lag; growth and portfolio optimization strategies, including the timing and outcome of pending or future acquisition activity, the completion of the announced sale of New York American Water Company, Inc. and the amount of proceeds anticipated to be received therefrom; the amount and allocation of projected capital expenditures and related funding requirements; the Company’s ability to repay or refinance debt; the ability to execute its current and long-term business, operational and capital expenditures strategies; its ability to finance current operations, capital expenditures and growth initiatives by accessing the debt and equity capital markets; the outcome and impact on the Company of legal and similar governmental and regulatory proceedings and related potential fines, penalties and other sanctions; the ability to complete, and the timing and efficacy of, the design, development, implementation and improvement of technology and other strategic initiatives; the impacts to the Company of the current pandemic health event resulting from the novel coronavirus (“COVID-19”); the ability to capitalize on existing or future utility privatization opportunities; trends in the industries in which the Company operates, including macro trends with respect to the Company’s efforts related to customer, technology and work execution; regulatory, legislative, tax policy or legal developments; and projected impacts that the Tax Cuts and Jobs Act (the “TCJA”) may have on the Company and on its business, results of operations, cash flows and liquidity.

Forward-looking statements are predictions based on the Company’s current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results, levels of activity, performance or achievements, and readers are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of estimates, assumptions, known and unknown risks, uncertainties and other factors. The Company’s actual results may vary materially from those discussed in the forward-looking statements included herein as a result of the following important factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower customer rates and regulatory responses to the COVID-19 pandemic;
- the timeliness and outcome of regulatory commissions’ actions concerning rates, capital structure, authorized return on equity, capital investment, system acquisitions and dispositions, taxes, permitting and other decisions;
- changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts, impacts of the COVID-19 pandemic, or otherwise;
- limitations on the availability of the Company’s water supplies or sources of water, or restrictions on its use thereof, resulting from allocation rights, governmental or regulatory requirements and restrictions, drought, overuse or other factors;
- a loss of one or more large industrial or commercial customers due to adverse economic conditions, the COVID-19 pandemic, or other factors;
- changes in laws, governmental regulations and policies, including with respect to environmental, health and safety, consumer privacy, water quality and water quality accountability, emerging contaminants, public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections;
- weather conditions and events, climate variability patterns, and natural disasters, including drought or abnormally high rainfall, prolonged and abnormal ice or freezing conditions, strong winds, coastal and intercoastal flooding, pandemics (including COVID-19) and epidemics, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms, sinkholes and solar flares;
- the outcome of litigation and similar governmental and regulatory proceedings, investigations or actions;
- the risks associated with the Company’s aging infrastructure, and its ability to appropriately maintain and replace current infrastructure, including its operational and technology systems, and manage the expansion of its businesses;
- exposure or infiltration of the Company’s technology and critical infrastructure systems, including the disclosure of sensitive, personal or confidential information contained therein, through physical or cyber attacks or other means;
- the Company’s ability to obtain permits and other approvals for projects;
- changes in the Company’s capital requirements;
- the Company’s ability to control operating expenses and to achieve operating efficiencies;
- the intentional or unintentional actions of a third party, including contamination of the Company’s water supplies or water provided to its customers;

- the Company’s ability to obtain adequate and cost-effective supplies of equipment, chemicals, electricity, fuel, water and other raw materials;
- the Company’s ability to successfully meet growth projections for the Regulated Businesses and the Market-Based Businesses (each as defined in this Form 10-Q), either individually or in the aggregate, and capitalize on growth opportunities, including, among other things, with respect to:
  - acquiring, closing and successfully integrating regulated operations and market-based businesses;
  - entering into contracts and other agreements with, or otherwise obtaining, new customers or partnerships in the Market-Based Businesses; and
  - realizing anticipated benefits and synergies from new acquisitions;
- risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations;
- cost overruns relating to improvements in or the expansion of the Company’s operations;
- the Company’s ability to successfully develop and implement new technologies and to protect related intellectual property;
- the Company’s ability to maintain safe work sites;
- the Company’s exposure to liabilities related to environmental laws and similar matters resulting from, among other things, water and wastewater service provided to customers;
- changes in general economic, political, business and financial market conditions, including without limitation conditions and collateral consequences associated with the current pandemic health event resulting from COVID-19;
- access to sufficient capital on satisfactory terms and when and as needed to support operations and capital expenditures;
- fluctuations in interest rates;
- restrictive covenants in or changes to the credit ratings on the Company or any of its subsidiaries, or on any of their current or future indebtedness, that could increase the Company’s financing costs or funding requirements or affect the ability to borrow, make payments on debt or pay dividends;
- fluctuations in the value of benefit plan assets and liabilities that could increase the Company’s cost and funding requirements;
- changes in federal or state general, income and other tax laws, including any further rules, regulations, interpretations and guidance by the U.S. Department of the Treasury and state or local taxing authorities related to the enactment of the TCJA, the availability of tax credits and tax abatement programs, and the Company’s ability to utilize its U.S. federal and state income tax net operating loss (“NOL”) carryforwards;
- migration of customers into or out of the Company’s service territories;
- the use by municipalities of the power of eminent domain or other authority to condemn the systems of one or more of the Company’s utility subsidiaries, or the assertion by private landowners of similar rights against such utility subsidiaries;
- any difficulty or inability to obtain insurance for the Company, its inability to obtain insurance at acceptable rates and on acceptable terms and conditions, or its inability to obtain reimbursement under existing insurance programs and coverages for any losses sustained;
- the incurrence of impairment charges related to the Company’s goodwill or other assets;
- labor actions, including work stoppages and strikes;
- the Company’s ability to retain and attract qualified employees;
- civil disturbances or terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts; and
- the impact of new, and changes to existing, accounting standards.

These forward-looking statements are qualified by, and should be read together with, the risks and uncertainties set forth above, and the risk factors and other statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 (the “Form 10-K”) and in this Form 10-Q, and readers should refer to such risks, uncertainties and risk factors in evaluating such forward-looking statements. Any forward-looking statements the Company makes shall speak only as of the date this Form 10-Q was filed with the U.S. Securities and Exchange Commission (“SEC”). Except as required by the federal securities laws, the Company does not have any obligation, and it specifically disclaims any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise. New factors emerge from time to time, and it is not possible for the Company to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on the Company’s businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****American Water Works Company, Inc. and Subsidiary Companies****Consolidated Balance Sheets (Unaudited)**

(In millions, except share and per share data)

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
<b>ASSETS</b>		
Property, plant and equipment	\$ 24,745	\$ 23,941
Accumulated depreciation	(5,801)	(5,709)
Property, plant and equipment, net	<u>18,944</u>	<u>18,232</u>
Current assets:		
Cash and cash equivalents	569	60
Restricted funds	36	31
Accounts receivable, net of allowance for uncollectible accounts of \$43 and \$41, respectively	298	294
Unbilled revenues	207	172
Materials and supplies	51	44
Assets held for sale	598	566
Other	137	118
Total current assets	<u>1,896</u>	<u>1,285</u>
Regulatory and other long-term assets:		
Regulatory assets	1,144	1,128
Operating lease right-of-use assets	99	103
Goodwill	1,506	1,501
Postretirement benefit assets	158	159
Intangible assets	61	67
Other	201	207
Total regulatory and other long-term assets	<u>3,169</u>	<u>3,165</u>
Total assets	<u>\$ 24,009</u>	<u>\$ 22,682</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Balance Sheets (Unaudited)**  
(In millions, except share and per share data)

	June 30, 2020	December 31, 2019
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization:		
Common stock (\$0.01 par value; 500,000,000 shares authorized; 186,369,041 and 185,903,727 shares issued, respectively)	\$ 2	\$ 2
Paid-in-capital	6,730	6,700
Accumulated deficit	(7)	(207)
Accumulated other comprehensive loss	(39)	(36)
Treasury stock, at cost (5,167,871 and 5,090,855 shares, respectively)	(348)	(338)
Total common shareholders' equity	6,338	6,121
Long-term debt	9,589	8,639
Redeemable preferred stock at redemption value	4	5
Total long-term debt	9,593	8,644
Total capitalization	15,931	14,765
Current liabilities:		
Short-term debt	920	786
Current portion of long-term debt	69	28
Accounts payable	169	203
Accrued liabilities	512	596
Accrued taxes	58	46
Accrued interest	90	84
Liabilities related to assets held for sale	133	128
Other	162	174
Total current liabilities	2,113	2,045
Regulatory and other long-term liabilities:		
Advances for construction	260	240
Deferred income taxes and investment tax credits	1,980	1,893
Regulatory liabilities	1,786	1,806
Operating lease liabilities	84	89
Accrued pension expense	397	411
Other	75	78
Total regulatory and other long-term liabilities	4,582	4,517
Contributions in aid of construction	1,383	1,355
Commitments and contingencies (See Note 11)		
Total capitalization and liabilities	\$ 24,009	\$ 22,682

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Statements of Operations (Unaudited)**  
(In millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Operating revenues	\$ 931	\$ 882	\$ 1,775	\$ 1,695
Operating expenses:				
Operation and maintenance	391	372	774	737
Depreciation and amortization	152	142	297	286
General taxes	75	72	152	141
(Gain) on asset dispositions and purchases	—	(6)	—	(9)
Total operating expenses, net	618	580	1,223	1,155
Operating income	313	302	552	540
Other income (expense):				
Interest, net	(101)	(94)	(197)	(187)
Non-operating benefit costs, net	12	4	25	8
Other, net	8	15	11	18
Total other income (expense)	(81)	(75)	(161)	(161)
Income before income taxes	232	227	391	379
Provision for income taxes	56	57	91	96
Net income attributable to common shareholders	\$ 176	\$ 170	\$ 300	\$ 283
Basic earnings per share:				
Net income attributable to common shareholders	\$ 0.97	\$ 0.94	\$ 1.66	\$ 1.56
Diluted earnings per share: (a)				
Net income attributable to common shareholders	\$ 0.97	\$ 0.94	\$ 1.65	\$ 1.56
Weighted-average common shares outstanding:				
Basic	181	181	181	181
Diluted	181	181	181	181

(a) Amounts may not calculate due to rounding.

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Statements of Comprehensive Income (Unaudited)**  
(In millions)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Net income attributable to common shareholders	\$ 176	\$ 170	\$ 300	\$ 283
Other comprehensive income (loss), net of tax:				
Defined benefit pension plan actuarial loss, net of tax of \$0 and \$1 for the three months ended June 30, 2020 and 2019, respectively and \$0 and \$1 for the six months ended June 30, 2020 and 2019, respectively	—	—	1	1
Foreign currency translation adjustment	—	(1)	—	(1)
Unrealized gain (loss) on cash flow hedges, net of tax of \$1 and \$1 for the three months ended June 30, 2020 and 2019, respectively and \$(1) and \$(5) for the six months ended June 30, 2020 and 2019, respectively	2	1	(4)	(13)
Net other comprehensive income (loss)	2	—	(3)	(13)
Comprehensive income attributable to common shareholders	\$ 178	\$ 170	\$ 297	\$ 270

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Statements of Cash Flows (Unaudited)**  
(In millions)

	<b>For the Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 300	\$ 283
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	297	286
Deferred income taxes and amortization of investment tax credits	96	85
Provision for losses on accounts receivable	14	10
Gain on asset dispositions and purchases	—	(9)
Pension and non-pension postretirement benefits	(4)	9
Other non-cash, net	(40)	(46)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(54)	(40)
Pension and postretirement benefit contributions	(22)	(14)
Accounts payable and accrued liabilities	(28)	(47)
Other assets and liabilities, net	(28)	(37)
Net cash provided by operating activities	<u>531</u>	<u>480</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(870)	(712)
Acquisitions, net of cash acquired	(40)	(80)
Proceeds from sale of assets	2	16
Removal costs from property, plant and equipment retirements, net	(50)	(41)
Net cash used in investing activities	<u>(958)</u>	<u>(817)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	1,163	1,184
Repayments of long-term debt	(166)	(146)
Proceeds from term loan	500	—
Net short-term borrowings with maturities less than three months	(367)	(568)
Proceeds from issuances of employee stock plans and direct stock purchase plan, net of taxes paid of \$16 and \$9 for the six months ended June 30, 2020 and 2019, respectively	2	6
Advances and contributions for construction, net of refunds of \$15 and \$17 for the six months ended June 30, 2020 and 2019, respectively	11	9
Debt issuance costs	(12)	(11)
Dividends paid	(190)	(173)
Anti-dilutive share repurchases	—	(36)
Net cash provided by financing activities	<u>941</u>	<u>265</u>
Net increase (decrease) in cash, cash equivalents and restricted funds	514	(72)
Cash, cash equivalents and restricted funds at beginning of period	91	159
Cash, cash equivalents and restricted funds at end of period	<u>\$ 605</u>	<u>\$ 87</u>
<b>Non-cash investing activity:</b>		
Capital expenditures acquired on account but unpaid as of the end of period	\$ 250	\$ 194

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**  
(In millions)

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Par Value	Paid-in-Capital			Shares	At Cost	
Balance as of December 31, 2019	185.9	\$ 2	\$ 6,700	\$ (207)	\$ (36)	(5.1)	\$ (338)	\$ 6,121
Net income attributable to common shareholders	—	—	—	124	—	—	—	124
Common stock issuances (a)	0.3	—	13	—	—	(0.1)	(10)	3
Net other comprehensive loss	—	—	—	—	(5)	—	—	(5)
Balance as of March 31, 2020	186.2	\$ 2	\$ 6,713	\$ (83)	\$ (41)	(5.2)	\$ (348)	\$ 6,243
Net income attributable to common shareholders	—	—	—	176	—	—	—	176
Common stock issuances (a)	0.2	—	17	—	—	—	—	17
Net other comprehensive loss	—	—	—	—	2	—	—	2
Dividends (\$0.55 declared per common share)	—	—	—	(100)	—	—	—	(100)
Balance as of June 30, 2020	186.4	\$ 2	\$ 6,730	\$ (7)	\$ (39)	(5.2)	\$ (348)	\$ 6,338

(a) Includes stock-based compensation, employee stock purchase plan and direct stock reinvestment and purchase plan activity.

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Par Value	Paid-in-Capital			Shares	At Cost	
Balance as of December 31, 2018	185.4	\$ 2	\$ 6,657	\$ (464)	\$ (34)	(4.7)	\$ (297)	\$ 5,864
Cumulative effect of change in accounting principle	—	—	—	(2)	—	—	—	(2)
Net income attributable to common shareholders	—	—	—	113	—	—	—	113
Common stock issuances (a)	0.2	—	11	—	—	(0.1)	(5)	6
Repurchases of common stock	—	—	—	—	—	(0.3)	(36)	(36)
Net other comprehensive loss	—	—	—	—	(13)	—	—	(13)
Balance as of March 31, 2019	185.6	\$ 2	\$ 6,668	\$ (353)	\$ (47)	(5.1)	\$ (338)	\$ 5,932
Net income attributable to common shareholders	—	—	—	170	—	—	—	170
Common stock issuances (a)	0.1	—	15	—	—	—	—	15
Dividends (\$0.50 declared per common share)	—	—	—	(90)	—	—	—	(90)
Balance as of June 30, 2019	185.7	\$ 2	\$ 6,683	\$ (273)	\$ (47)	(5.1)	\$ (338)	\$ 6,027

(a) Includes stock-based compensation, employee stock purchase plan and direct stock reinvestment and purchase plan activity.

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Unaudited)**

(Unless otherwise noted, in millions, except per share data)

**Note 1: Basis of Presentation**

The unaudited Consolidated Financial Statements included in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries (the “Company” or “American Water”), in which a controlling interest is maintained after the elimination of intercompany balances and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial reporting, and the rules and regulations for reporting on Quarterly Reports on Form 10-Q (“Form 10-Q”). Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position as of June 30, 2020, and the results of operations and cash flows for all periods presented, have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

The unaudited Consolidated Financial Statements and Notes included in this report should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 (“Form 10-K”), which provides a more complete discussion of the Company’s accounting policies, financial position, operating results and other matters. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, primarily due to the seasonality of the Company’s operations.

**Note 2: Significant Accounting Policies**

***New Accounting Standards***

Presented in the table below are new accounting standards that were adopted by the Company in 2020:

<b>Standard</b>	<b>Description</b>	<b>Date of Adoption</b>	<b>Application</b>	<b>Effect on the Consolidated Financial Statements</b>
Measurement of Credit Losses on Financial Instruments	Updated the accounting guidance on reporting credit losses for financial assets held at amortized cost basis and available-for-sale debt securities. Under this guidance, expected credit losses are required to be measured based on historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount of financial assets. Also, this guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down.	January 1, 2020	Modified retrospective	The standard did not have a material impact on the Consolidated Financial Statements.
Changes to the Disclosure Requirements for Fair Value Measurement	Updated the disclosure requirements for fair value measurement. The guidance removes the requirements to disclose transfers between Level 1 and Level 2 measurements, the timing of transfers between levels, and the valuation processes for Level 3 measurements. Disclosure of transfers into and out of Level 3 measurements will be required. The guidance adds disclosure requirements for the change in unrealized gains and losses in other comprehensive income for recurring Level 3 measurements, as well as the range and weighted average of significant unobservable inputs used to develop Level 3 measurements.	January 1, 2020	Prospective for added disclosures and for the narrative description of measurement uncertainty; retrospective for all other amendments.	The standard did not have a material impact on the Consolidated Financial Statements.
Facilitation of the Effects of Reference Rate Reform on Financial Reporting	Provided optional guidance for a limited time to ease the potential accounting burden associated with the transition from LIBOR. The guidance contains optional expedients and exceptions for contract modifications, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued. The expedients elected must be applied for all eligible contracts or transactions, with the exception of hedging relationships, which can be applied on an individual basis	March 12, 2020 through December 31, 2022	Prospective for contract modifications and hedging relationships; applied as of January 1, 2020.	The standard did not have a material impact on the Consolidated Financial Statements.

Presented in the table below are recently issued accounting standards that have not yet been adopted by the Company as of June 30, 2020:

Standard	Description	Date of Adoption	Application	Estimated Effect on the Consolidated Financial Statements
Simplifying the Accounting for Income Taxes	The guidance removes exceptions related to the incremental approach for intraperiod tax allocation, the requirement to recognize a deferred tax liability for changes in ownership of a foreign subsidiary or equity method investment, and the general methodology for calculating income taxes in an interim period when the year-to-date loss exceeds the anticipated loss. The guidance adds requirements to reflect changes to tax laws or rates in the annual effective tax rate computation in the interim period in which the changes were enacted, to recognize franchise or other similar taxes that are partially based on income as an income-based tax and any incremental amounts as non-income-based tax, and to evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction.	January 1, 2021; early adoption permitted	Modified retrospective for amendments related to changes in ownership of a foreign subsidiary or equity method investment; Modified retrospective or retrospective for amendments related to taxes partially based on income; Prospective for all other amendments.	The Company is evaluating any impact on its Consolidated Financial Statements, as well as the timing of adoption.

**Cash, Cash Equivalents and Restricted Funds**

Presented in the table below is a reconciliation of the cash and cash equivalents and restricted funds amounts as presented on the Consolidated Balance Sheets to the sum of such amounts presented on the Consolidated Statements of Cash Flows for the periods ended June 30:

	2020	2019
Cash and cash equivalents	\$ 569	\$ 64
Restricted funds	36	22
Restricted funds included in other long-term assets	—	1
Cash, cash equivalents and restricted funds as presented on the Consolidated Statements of Cash Flows	\$ 605	\$ 87

**Allowance for Uncollectible Accounts**

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due, previous loss history, current economic and societal conditions and reasonable and supportable forecasts that affect the collectability of receivables from customers. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding.

Presented in the table below are the changes in the allowance for uncollectible accounts for the periods ended June 30:

	2020	2019
Balance as of January 1	\$ (41)	\$ (45)
Amounts charged to expense	(14)	(10)
Amounts written off	10	13
Less: Allowance for uncollectible accounts included in assets held for sale (a)	2	—
Balance as of June 30	\$ (43)	\$ (42)

(a) This portion of the allowance for uncollectible accounts is related to the pending transactions contemplated by the Stock Purchase Agreement between the Company and the Company's New York subsidiary and Liberty Utilities Co., and is included in assets held for sale on the Consolidated Balance Sheets. See Note 5—Acquisitions and Divestitures for additional information.

**Reclassifications**

Certain reclassifications have been made to prior periods in the Consolidated Financial Statements and Notes to conform to the current presentation.

**Note 3: Impact of Novel Coronavirus (COVID-19) Pandemic**

American Water continues to monitor the global outbreak of the current novel coronavirus (“COVID-19”) pandemic. To date, the Company has experienced COVID-19 financial impacts, including an increase in uncollectible accounts expense, additional debt costs, and certain incremental operation and maintenance (“O&M”) expenses. The Company has also experienced decreased revenues as a result of the waiver of late fees, foregone reconnect fees, and lower base revenues, primarily from the Company’s commercial and industrial customers, partially offset by increased revenues from the Company’s residential customers.

The Company requested authorization for deferred accounting of COVID-19 financial impacts in all 14 regulatory jurisdictions in which it operates. As of August 5, 2020, American Water has commission orders authorizing deferred accounting for COVID-19 financial impacts in ten of 14 jurisdictions, with four requests pending. In addition to approving deferred accounting, two regulatory jurisdictions have also approved cost recovery mechanisms for COVID-19 financial impacts, as presented in the table below:

<b>Commission Orders</b>	<b>Description</b>	<b>States Allowed</b>
Regulatory assets	Allows the Company to establish regulatory assets to record certain financial impacts related to the COVID-19 pandemic.	CA, HI, IA, IL, IN, MD, NJ, PA, VA, WV
Cost recovery mechanisms	California’s Catastrophic Event Memorandum Account allows the Company to track and recover certain financial impacts related to the COVID-19 pandemic. Illinois has authorized cost recovery of COVID-19 financial impacts through a special purpose rider over a 24-month period.	CA, IL

Consistent with these regulatory orders, the Company recorded \$14 million in regulatory assets and \$2 million of regulatory liabilities for financial impacts related to the COVID-19 pandemic on the Consolidated Balance Sheets as of June 30, 2020.

**Note 4: Revenue Recognition****Disaggregated Revenues**

The Company’s primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the “Regulated Businesses.” The Company also operates market-based businesses that provide complementary services to residential and smaller commercial customers, the U.S. government on military installations, as well as municipalities, utilities and industrial customers, collectively presented as the “Market-Based Businesses.”

Presented in the table below are operating revenues disaggregated for the three months ended June 30, 2020:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
<b>Regulated Businesses:</b>			
Water services:			
Residential	\$ 474	\$ —	\$ 474
Commercial	142	—	142
Fire service	36	—	36
Industrial	31	—	31
Public and other	41	—	41
Total water services	724	—	724
Wastewater services:			
Residential	33	—	33
Commercial	9	—	9
Industrial	—	—	—
Public and other	4	—	4
Total wastewater services	46	—	46
Miscellaneous utility charges	10	—	10
Alternative revenue programs	—	21	21
Lease contract revenue	—	2	2
Total Regulated Businesses	780	23	803
Market-Based Businesses	132	—	132
Other	(4)	—	(4)
Total operating revenues	\$ 908	\$ 23	\$ 931

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* (“ASC 606”), and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the six months ended June 30, 2020:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
<b>Regulated Businesses:</b>			
Water services:			
Residential	\$ 873	\$ —	\$ 873
Commercial	284	—	284
Fire service	73	—	73
Industrial	63	—	63
Public and other	90	—	90
Total water services	1,383	—	1,383
Wastewater services:			
Residential	64	—	64
Commercial	17	—	17
Industrial	1	—	1
Public and other	7	—	7
Total wastewater services	89	—	89
Miscellaneous utility charges	18	—	18
Alternative revenue programs	—	28	28
Lease contract revenue	—	5	5
Total Regulated Businesses	1,490	33	1,523
Market-Based Businesses	260	—	260
Other	(8)	—	(8)
Total operating revenues	\$ 1,742	\$ 33	\$ 1,775

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

### **Contract Balances**

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. In the Company's Market-Based Businesses, certain contracts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Contract assets are recorded when billing occurs subsequent to revenue recognition and are reclassified to accounts receivable when billed and the right to consideration becomes unconditional. Contract liabilities are recorded when the Company receives advances from customers prior to satisfying contractual performance obligations, particularly for construction contracts and home warranty protection program contracts and are recognized as revenue when the associated performance obligations are satisfied.

Contract assets of \$26 million and \$13 million are included in unbilled revenues on the Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019, respectively. There were \$29 million of contract assets added during the six months ended June 30, 2020, and \$16 million of contract assets were transferred to accounts receivable during the same period.

Contract liabilities of \$37 million and \$27 million are included in other current liabilities on the Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019, respectively. There were \$66 million of contract liabilities added during the six months ended June 30, 2020, and \$56 million of contract liabilities were recognized as revenue during the same period.

**Remaining Performance Obligations**

Remaining performance obligations (“RPOs”) represent revenues the Company expects to recognize in the future from contracts that are in progress. The Company enters into agreements for the provision of services to water and wastewater facilities for the U.S. military, municipalities and other customers. As of June 30, 2020, the Company’s O&M and capital improvement contracts in the Market-Based Businesses have RPOs. Contracts with the U.S. government for work on various military installations expire between 2051 and 2070 and have RPOs of \$5.5 billion as of June 30, 2020, as measured by estimated remaining contract revenue. Such contracts are subject to customary termination provisions held by the U.S. government, prior to the agreed-upon contract expiration. Contracts with municipalities and commercial customers expire between 2021 and 2038 and have RPOs of \$493 million as of June 30, 2020, as measured by estimated remaining contract revenue. Some of the Company’s long-term contracts to operate and maintain the federal government’s, a municipality’s or other party’s water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

**Note 5: Acquisitions and Divestitures**

During the six months ended June 30, 2020, the Company closed on the acquisition of 12 regulated water and wastewater systems for a total aggregate purchase price of \$40 million, including the acquisition of the water system assets of the California based Fruitridge Vista Water Company, on February 4, 2020. Assets acquired from these acquisitions, principally utility plant, totaled \$57 million, and liabilities assumed totaled \$24 million, including \$15 million of contributions in aid of construction and assumed debt of \$6 million. The Company recorded additional goodwill of \$7 million associated with two of its acquisitions, which is reported in its Regulated Businesses segment. Several of these acquisitions were accounted for as business combinations, as the Company continues to grow its business through regulated acquisitions. The preliminary purchase price allocations related to acquisitions accounted for as business combinations will be finalized once the valuation of assets acquired has been completed, no later than one year after their acquisition date.

**Assets Held for Sale**

On November 20, 2019, the Company and the Company’s New York subsidiary entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) with Liberty Utilities Co. (“Liberty”), pursuant to which Liberty will purchase all of the capital stock of the New York subsidiary (the “Stock Purchase”) for an aggregate purchase price of approximately \$608 million in cash, subject to adjustment as provided in the Stock Purchase Agreement. The Company’s regulated New York operations have approximately 125,000 customer connections in the State of New York. Algonquin Power & Utilities Corp., Liberty’s parent company, executed and delivered an absolute and unconditional guaranty of the performance of the obligations of Liberty under the Stock Purchase Agreement. The Stock Purchase is subject to various conditions, including obtaining regulatory approval and satisfying or waiving other closing conditions. The Stock Purchase Agreement may be terminated by either party if the Stock Purchase is not completed by June 30, 2021, subject to extension for up to six months if all of the conditions to closing have been met, other than obtaining regulatory approvals. Liberty may also terminate the Stock Purchase Agreement if any governmental authority initiates a condemnation or eminent domain proceeding against a majority of the consolidated properties of the New York subsidiary, taken as a whole. Progress toward completion of the transaction continues, and subject to such closing conditions and no exercise of termination rights, the Company estimates that the Stock Purchase will be completed in early 2021. Accordingly, the assets and related liabilities of the New York subsidiary were classified as held for sale on the Consolidated Balance Sheets as of June 30, 2020.

Presented in the table below are the components of assets held for sale and liabilities related to assets held for sale of the New York subsidiary as of June 30, 2020:

	<b>June 30, 2020</b>
Current assets	\$ 15
Property, plant and equipment	479
Regulatory assets	59
Goodwill	39
Other assets	6
Assets held for sale	<u>\$ 598</u>
Current liabilities	21
Deferred income taxes	70
Regulatory liabilities	37
Other liabilities	5
Liabilities related to assets held for sale	<u>\$ 133</u>

**Note 6: Shareholders' Equity**
**Accumulated Other Comprehensive Loss**

Presented in the table below are the changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2020 and 2019, respectively:

	Defined Benefit Pension Plans			Foreign Currency Translation	Gain (Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Loss
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss			
Balance as of December 31, 2019	\$ (94)	\$ 1	\$ 60	\$ —	\$ (3)	\$ (36)
Other comprehensive loss before reclassifications	—	—	—	—	(4)	(4)
Amounts reclassified from accumulated other comprehensive loss	—	—	1	—	—	1
Net other comprehensive income (loss)	—	—	1	—	(4)	(3)
Balance as of June 30, 2020	\$ (94)	\$ 1	\$ 61	\$ —	\$ (7)	\$ (39)
Balance as of December 31, 2018	\$ (102)	\$ 1	\$ 56	\$ 1	\$ 10	\$ (34)
Other comprehensive loss before reclassifications	—	—	—	—	(13)	(13)
Amounts reclassified from accumulated other comprehensive loss	—	—	1	(1)	—	—
Net other comprehensive income (loss)	—	—	1	(1)	(13)	(13)
Balance as of June 30, 2019	\$ (102)	\$ 1	\$ 57	\$ —	\$ (3)	\$ (47)

The Company does not reclassify the amortization of defined benefit pension cost components from accumulated other comprehensive loss directly to net income in its entirety, as a portion of these costs have been capitalized as a regulatory asset. These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

The amortization of the gain (loss) on cash flow hedges is reclassified to net income during the period incurred and is included in interest, net in the accompanying Consolidated Statements of Operations.

**Dividends**

On June 2, 2020, the Company paid a quarterly cash dividend of \$0.55 per share to shareholders of record as of May 12, 2020.

On July 29, 2020, the Company's Board of Directors declared a quarterly cash dividend payment of \$0.55 per share, payable on September 1, 2020 to shareholders of record as of August 12, 2020. Future dividends, when and as declared at the discretion of the Board of Directors, will be dependent upon future earnings and cash flows, compliance with various regulatory, financial and legal requirements, and other factors. See Note 9—Shareholders' Equity in the Notes to Consolidated Financial Statements in the Company's Form 10-K for additional information regarding the payment of dividends on the Company's common stock.

**Note 7: Long-Term Debt**

On April 14, 2020, American Water Capital Corp. ("AWCC") completed a \$1.0 billion debt offering which included the sale of \$500 million aggregate principal amount of its 2.80% senior notes due 2030 and \$500 million aggregate principal amount of its 3.45% senior notes due 2050. At the closing of the offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of \$989 million. AWCC used the net proceeds of this offering: (i) to lend funds to parent company and its regulated subsidiaries; (ii) to fund sinking fund payments for, and to repay at maturity, \$28 million in aggregate principal amount of outstanding long-term debt of AWCC and certain of the Company's regulated subsidiaries; (iii) to repay AWCC's commercial paper obligations and short-term indebtedness under AWCC's \$2.25 billion unsecured revolving credit facility; and (iv) for general corporate purposes.

During March 2020, the Company entered into four 10-year treasury lock agreements, each with a notional amount of \$100 million, to reduce interest rate exposure on debt, which was subsequently issued on April 14, 2020. These treasury lock agreements had an average fixed rate of 0.94%. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. On April 8, 2020 the Company terminated these four treasury lock agreements with an aggregate notional amount of \$400 million, realizing a net loss of \$6 million, to be amortized through interest, net over a 10 year period, in accordance with the terms of the \$1.0 billion new debt issued on April 14, 2020. No ineffectiveness was recognized on hedging instruments for the three and six months ended June 30, 2020 and 2019.

In addition to the senior notes issued by AWCC as described above, during the six months ended June 30, 2020, the Company's regulated subsidiaries issued \$163 million of senior notes, private activity bonds and government funded debt with rates ranging from 0.00% to 5.00%, maturing in 2021 through 2048. During the six months ended June 30, 2020, AWCC, along with the Company's regulated subsidiaries, retired or paid at maturity \$166 million of various long-term debt with rates ranging from 0.00% to 12.25%, maturing in 2020 through 2048.

**Note 8: Short-Term Debt**

As a result of the COVID-19 pandemic and to ensure adequate liquidity, on March 20, 2020, AWCC entered into a Term Loan Credit Agreement, by and among American Water, AWCC and the lenders party thereto, which provides for a term loan facility of up to \$750 million (the "Term Loan Facility"). On March 20, 2020, AWCC borrowed \$500 million under the Term Loan Facility, the proceeds of which were used for general corporate purposes of AWCC and American Water, and to provide additional liquidity. The Term Loan Facility allowed for a single additional borrowing of up to \$250 million, which expired unused on June 19, 2020. The Term Loan Facility commitments terminate on March 19, 2021. AWCC may from time to time prepay all or a portion of amounts due under the Term Loan Facility without any premium or penalty. Borrowings under the Term Loan Facility bear interest at a variable annual rate based on LIBOR, plus a margin of 0.80%. The credit agreement for the Term Loan Facility contains the same affirmative and negative covenants and events of default as under AWCC's \$2.25 billion revolving credit facility. As of June 30, 2020, \$500 million of principal was outstanding under the Term Loan Facility.

On April 1, 2020, the termination date of the credit agreement with respect to AWCC's revolving credit facility was extended, pursuant to the terms of the credit agreement, from March 21, 2024 to March 21, 2025. As of June 30, 2020, AWCC had no outstanding borrowings and \$76 million of outstanding letters of credit under the revolving credit facility, and \$420 million of outstanding commercial paper, with \$1.75 billion available to fulfill short-term liquidity needs and to issue letters of credit. During the six months ended June 30, 2020, the Company drew down and subsequently paid off \$650 million of borrowings under the revolving credit facility. The weighted-average interest rate on AWCC short-term borrowings outstanding, including \$500 million of principal outstanding under the Term Loan Facility as of June 30, 2020, was approximately 1.06% and 1.86% at June 30, 2020 and December 31, 2019, respectively.

**Note 9: Income Taxes**

The Company's effective income tax rate was 24.1% and 25.1% for the three months ended June 30, 2020 and 2019, respectively and 23.3% and 25.3% for the six months ended June 30, 2020 and 2019, respectively. The decrease in the Company's effective income tax rate for the three months ended June 30, 2020 was primarily due to the amortization of the excess accumulated deferred income taxes ("EADIT") resulting from the Tax Cuts and Jobs Act (the "TCJA"), which began in the second quarter of 2019. The decrease in the Company's effective income tax rate for the six months ended June 30, 2020 was primarily due to the amortization of the EADIT resulting from the TCJA, and an increase in stock based compensation benefits.

**Note 10: Pension and Other Postretirement Benefits**

Presented in the table below are the components of net periodic benefit cost (credit):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Components of net periodic pension benefit cost:</b>				
Service cost	\$ 8	\$ 7	\$ 16	\$ 14
Interest cost	18	21	37	41
Expected return on plan assets	(28)	(23)	(56)	(45)
Amortization of prior service credit	(1)	(1)	(2)	(2)
Amortization of actuarial loss	8	8	16	16
Net periodic pension benefit cost before settlements	5	12	11	24
Settlements (a)	1	—	1	—
Net periodic pension benefit cost	\$ 6	\$ 12	\$ 12	\$ 24
<b>Components of net periodic other postretirement benefit credit:</b>				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	3	4	6	7
Expected return on plan assets	(5)	(5)	(9)	(9)
Amortization of prior service credit	(8)	(9)	(16)	(17)
Amortization of actuarial loss	—	1	1	2
Net periodic other postretirement benefit credit	\$ (9)	\$ (8)	\$ (16)	\$ (15)

(a) Due to the amount of lump sum payment distributions from the Company's New York Water Service Corporation Pension Plan, a settlement charge of \$1 million was recorded during the three and six months ended June 30, 2020. There were no settlement charges recorded during the three and six months ended June 30, 2019. In accordance with existing regulatory accounting treatment, the Company has maintained the settlement charge in regulatory assets. The amount is being amortized in accordance with existing regulatory practice.

The Company contributed \$12 million and \$22 million for the funding of its defined benefit pension plans for the three and six months ended June 30, 2020, respectively, and contributed \$7 million and \$14 million for the funding of its defined benefit pension plans for the three and six months ended June 30, 2019, respectively. The Company made no contributions for the funding of its other postretirement benefit plans for each of the three and six months ended June 30, 2020 and 2019. The Company expects to make pension contributions to the plan trusts of up to \$17 million during the remainder of 2020.

**Note 11: Commitments and Contingencies**
**Contingencies**

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of June 30, 2020, the Company has accrued approximately \$8 million of probable loss contingencies and has estimated that the maximum amount of losses associated with reasonably possible loss contingencies that can be reasonably estimated is \$2 million. For certain matters, claims and actions, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such matters, claims or actions, other than as described in this Note 11—Commitments and Contingencies, will not have a material adverse effect on the Company.

*West Virginia Elk River Freedom Industries Chemical Spill*

On June 8, 2018, the U.S. District Court for the Southern District of West Virginia granted final approval of a settlement class and global class action settlement (the "Settlement") for all claims and potential claims by all class members (collectively, the "West Virginia Plaintiffs") arising out of the January 2014 Freedom Industries, Inc. chemical spill in West Virginia. The effective date of the Settlement was July 16, 2018. Under the terms and conditions of the Settlement, West Virginia-American Water Company ("WVAWC") and certain other Company affiliated entities (collectively, the "West Virginia-American Water Defendants") did not admit, and will not admit, any fault or liability for any of the allegations made by the West Virginia Plaintiffs in any of the actions that were resolved.

The aggregate pre-tax amount contributed by WVAWC of the \$126 million portion of the Settlement with respect to the Company, net of insurance recoveries, is \$19 million. As of June 30, 2020, \$0.5 million of the aggregate Settlement amount of \$126 million has been reflected in accrued liabilities, and \$0.5 million in offsetting insurance receivables have been reflected in other current assets on the Consolidated Balance Sheets. The amount reflected in accrued liabilities as of June 30, 2020 reflects reductions in the liability and appropriate reductions to the offsetting insurance receivable reflected in other current assets, associated with payments made to the Settlement fund, the receipt of a determination by the Settlement fund's appeal adjudicator on all remaining medical claims and the calculation of remaining attorneys' fees and claims administration costs. The Company funded WVAWC's contributions to the Settlement through existing sources of liquidity.

*Dunbar, West Virginia Water Main Break Class Action Litigation*

On the evening of June 23, 2015, a 36-inch pre-stressed concrete transmission water main, installed in the early 1970s, failed. The water main is part of WVAWC's West Relay pumping station located in the City of Dunbar. The failure of the main caused water outages and low pressure for up to approximately 25,000 WVAWC customers. In the early morning hours of June 25, 2015, crews completed a repair, but that same day, the repair developed a leak. On June 26, 2015, a second repair was completed and service was restored that day to approximately 80% of the impacted customers, and to the remaining approximately 20% by the next morning. The second repair showed signs of leaking, but the water main was usable until June 29, 2015 to allow tanks to refill. The system was reconfigured to maintain service to all but approximately 3,000 customers while a final repair was completed safely on June 30, 2015. Water service was fully restored by July 1, 2015 to all customers affected by this event.

On June 2, 2017, a complaint captioned *Jeffries, et al. v. West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of residents and business owners who lost water service or pressure as a result of the Dunbar main break. The complaint alleges breach of contract by WVAWC for failure to supply water, violation of West Virginia law regarding the sufficiency of WVAWC's facilities and negligence by WVAWC in the design, maintenance and operation of the water system. The *Jeffries* plaintiffs seek unspecified alleged damages on behalf of the class for lost profits, annoyance and inconvenience, and loss of use, as well as punitive damages for willful, reckless and wanton behavior in not addressing the risk of pipe failure and a large outage.

In October 2017, WVAWC filed with the court a motion seeking to dismiss all of the *Jeffries* plaintiffs' counts alleging statutory and common law tort claims. Furthermore, WVAWC asserted that the Public Service Commission of West Virginia, and not the court, has primary jurisdiction over allegations involving violations of the applicable tariff, the public utility code and related rules. In May, 2018, the court, at a hearing, denied WVAWC's motion to apply the primary jurisdiction doctrine, and in October, 2018, the court issued a written order to that effect. On February 21, 2019, the court issued an order denying WVAWC's motion to dismiss the *Jeffries* plaintiffs' tort claims. On August 21, 2019, the court set a procedural schedule in this case, including a trial date of September 21, 2020. Discovery in this case is ongoing. On February 4, 2020, the *Jeffries* plaintiffs filed a motion seeking class certification on the issues of breach of contract and negligence, and to determine the applicability of punitive damages and a multiplier for those damages if imposed. A hearing on class certification was held on March 11, 2020, followed by a status conference on April 7, 2020. On June 11, 2020, the court ruled that it would partially grant the *Jeffries* plaintiffs' motion for certification of an issues class and would deny the request for certification of a class to determine a punitive damages multiplier for the class. On July 14, 2020, the court entered an order reflecting its June 11, 2020 rulings, and WVAWC intends to appeal this order to the West Virginia Supreme Court of Appeals. The court also set a new trial date for April 12, 2021 and requested the parties prepare an appropriate scheduling order.

The Company and WVAWC believe that WVAWC has valid, meritorious defenses to the claims raised in this class action complaint. WVAWC is vigorously defending itself against these allegations. The Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of such losses related to this proceeding.

*Chattanooga, Tennessee Water Main Break Class Action Litigation*

On September 12, 2019, Tennessee-American Water Company, a wholly owned subsidiary of the Company ("TAWC"), experienced a break of a 36-inch water transmission main, which caused service fluctuations or interruptions to TAWC customers and the issuance of a boil water notice. TAWC repaired the main break by early morning on September 14, 2019, and restored full water service by the afternoon on September 15, 2019, with the boil water notice lifted for all customers on September 16, 2019.

On September 17, 2019, a complaint captioned *Bruce, et al. v. American Water Works Company, Inc., et al.* was filed in the Circuit Court of Hamilton County, Tennessee against TAWC, the Company and American Water Works Service Company, Inc., a wholly owned subsidiary of the Company (collectively, the “Tennessee-American Water Defendants”), on behalf of an alleged class of individuals or entities who lost water service or suffered monetary losses as a result of the Chattanooga main break (the “Tennessee Plaintiffs”). The complaint alleges breach of contract and negligence against the Tennessee-American Water Defendants, as well as an equitable remedy of piercing the corporate veil. The Tennessee Plaintiffs seek an award of unspecified alleged damages for wage losses, business and economic losses, out-of-pocket expenses, loss of use and enjoyment of property and annoyance and inconvenience, as well as punitive damages, attorneys’ fees and pre- and post-judgment interest.

On November 22, 2019, the Tennessee-American Water Defendants filed a motion to dismiss the complaint for failure to state a claim upon which relief may be granted, and, with respect to the Company, for lack of personal jurisdiction. A hearing on this motion was held on February 18, 2020. On June 8, 2020, the judge hearing the case transferred the matter to a different judge prior to ruling on the motion to dismiss. Oral argument on the motion to dismiss has been scheduled for September 9, 2020.

The Tennessee-American Water Defendants believe that they have meritorious defenses to the claims raised in this class action complaint, and they are vigorously defending themselves against these allegations. The Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of such losses related to this proceeding.

**Note 12: Earnings per Common Share**

Presented in the table below is a reconciliation of the numerator and denominator for the basic and diluted earnings per share (“EPS”) calculations:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Numerator:</b>				
Net income attributable to common shareholders	\$ 176	\$ 170	\$ 300	\$ 283
<b>Denominator:</b>				
Weighted-average common shares outstanding—Basic	181	181	181	181
Effect of dilutive common stock equivalents	—	—	—	—
Weighted-average common shares outstanding—Diluted	181	181	181	181

The effect of dilutive common stock equivalents is related to outstanding stock options, restricted stock units and performance stock units granted under the Company’s 2007 Omnibus Equity Compensation Plan and outstanding restricted stock units and performance stock units granted under the Company’s 2017 Omnibus Equity Compensation Plan, as well as estimated shares to be purchased under the Company’s 2017 Nonqualified Employee Stock Purchase Plan. Less than one million share-based awards were excluded from the computation of diluted EPS for the three and six months ended June 30, 2020 and 2019, because their effect would have been anti-dilutive under the treasury stock method.

**Note 13: Fair Value of Financial Information**

**Fair Value of Financial Instruments**

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

**Current assets and current liabilities**—The carrying amounts reported on the Consolidated Balance Sheets for current assets and current liabilities, including revolving credit debt, due to the short-term maturities and variable interest rates, approximate their fair values.

**Preferred stock with mandatory redemption requirements and long-term debt**—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs.

Presented in the tables below are the carrying amounts, including fair value adjustments previously recognized in acquisition purchase accounting, and the fair values of the Company's financial instruments:

	Carrying Amount	At Fair Value as of June 30, 2020			
		Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	\$ 6	\$ —	\$ —	\$ 7	\$ 7
Long-term debt (excluding finance lease obligations)	9,656	9,387	424	1,747	11,558

	Carrying Amount	At Fair Value as of December 31, 2019			
		Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	\$ 7	\$ —	\$ —	\$ 9	\$ 9
Long-term debt (excluding finance lease obligations)	8,664	7,689	417	1,664	9,770

**Recurring Fair Value Measurements**

Presented in the tables below are assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy:

	At Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Restricted funds	\$ 36	\$ —	\$ —	\$ 36
Rabbi trust investments	16	—	—	16
Deposits	4	—	—	4
Other investments	14	—	—	14
<b>Total assets</b>	<b>70</b>	<b>—</b>	<b>—</b>	<b>70</b>
<b>Liabilities:</b>				
Deferred compensation obligations	20	—	—	20
<b>Total liabilities</b>	<b>20</b>	<b>—</b>	<b>—</b>	<b>20</b>
<b>Total assets (liabilities)</b>	<b>\$ 50</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 50</b>

	At Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Restricted funds	\$ 31	\$ —	\$ —	\$ 31
Rabbi trust investments	17	—	—	17
Deposits	3	—	—	3
Other investments	8	—	—	8
<b>Total assets</b>	<b>59</b>	<b>—</b>	<b>—</b>	<b>59</b>
<b>Liabilities:</b>				
Deferred compensation obligations	21	—	—	21
<b>Total liabilities</b>	<b>21</b>	<b>—</b>	<b>—</b>	<b>21</b>
<b>Total assets</b>	<b>\$ 38</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 38</b>

Restricted funds—The Company’s restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operation, maintenance and repair projects.

Rabbi trust investments—The Company’s rabbi trust investments consist of equity and index funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets on the Consolidated Balance Sheets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets on the Consolidated Balance Sheets.

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

Mark-to-market derivative assets and liabilities—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps and treasury lock agreements, classified as economic hedges and cash flow hedges, respectively, in order to fix the interest cost on existing or forecasted debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Other investments—Other investments primarily represent money market funds used for active employee benefits. The Company includes other investments in other current assets on the Consolidated Balance Sheets.

#### **Note 14: Leases**

The Company has operating and finance leases involving real property, including facilities, utility assets, vehicles, and equipment. Certain operating leases have renewal options ranging from one to 60 years. The exercise of lease renewal options is at the Company’s sole discretion. Renewal options that the Company was reasonably certain to exercise are included in the Company’s right-of-use (“ROU”) assets. Certain operating leases contain the option to purchase the leased property. The operating leases for real property, vehicles and equipment will expire over the next 40 years, seven years, and five years, respectively. Certain lease agreements include variable rental payments adjusted periodically for inflation. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company participates in a number of arrangements with various public entities (“Partners”) in West Virginia. Under these arrangements, the Company transferred a portion of its utility plant to the Partners in exchange for an equal principal amount of Industrial Development Bonds (“IDBs”) issued by the Partners under the Industrial Development and Commercial Development Bond Act. The Company leased back the utility plant under agreements for a period of 30 to 40 years. The Company has recorded these agreements as finance leases in property, plant and equipment, as ownership of the assets will revert back to the Company at the end of the lease term. The carrying value of the finance lease assets was \$147 million as of June 30, 2020 and December 31, 2019. The Company determined that the finance lease obligations and the investments in IDBs meet the conditions for offsetting, and as such, are reported net on the Consolidated Balance Sheets and excluded from the finance lease disclosure presented below.

The Company also enters into O&M agreements with the Partners. The Company pays an annual fee for use of the Partners’ assets in performing under the O&M agreements. The O&M agreements are recorded as operating leases, and future annual use fees of \$4 million in 2020 through 2024, and \$56 million thereafter, are included in operating lease ROU assets and operating lease liabilities on the Consolidated Balance Sheets.

Rental expenses under operating and finance leases were \$3 million and \$7 million for the three and six months ended June 30, 2020, respectively.

Presented in the table below is supplemental cash flow information:

	For the Three Months Ended June 30,	For the Six Months Ended June 30,
Cash paid for amounts in lease liabilities (a)	\$ 4	\$ 8
Right-of-use assets obtained in exchange for new operating lease liabilities	—	1

(a) Includes operating and financing cash flows from operating and finance leases.

Presented in the table below are the weighed-average remaining lease terms and the weighted-average discount rates for finance and operating leases:

	As of June 30, 2020
Weighted-average remaining lease term:	
Finance lease	6 years
Operating leases	19 years
Weighted-average discount rate:	
Finance lease	12 %
Operating leases	4 %

Presented in the table below are the future maturities of lease liabilities at June 30, 2020:

	Amount
2020	\$ 6
2021	13
2022	11
2023	7
2024	7
Thereafter	100
Total lease payments	144
Imputed interest	(50)
Total	\$ 94

**Note 15: Segment Information**

The Company's operating segments are comprised of the revenue-generating components of its businesses for which separate financial information is internally produced and regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates its businesses primarily through one reportable segment, the Regulated Businesses segment. The Company also operates market-based businesses that, individually, do not meet the criteria of a reportable segment in accordance with GAAP, and are collectively presented as the Market-Based Businesses. "Other" includes corporate costs that are not allocated to the Company's operating segments, eliminations of inter-segment transactions, fair value adjustments and associated income and deductions related to the acquisitions that have not been allocated to the operating segments for evaluation of performance and allocation of resource purposes. The adjustments related to the acquisitions are reported in Other as they are excluded from segment performance measures evaluated by management.

Presented in the tables below is summarized segment information:

	As of or for the Three Months Ended June 30, 2020			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 803	\$ 132	\$ (4)	\$ 931
Depreciation and amortization	144	7	1	152
Total operating expenses, net	512	102	4	618
Interest, net	(74)	—	(27)	(101)
Income before income taxes	236	30	(34)	232
Provision for income taxes	58	8	(10)	56
Net income attributable to common shareholders	177	23	(24)	176
Total assets	21,536	1,075	1,398	24,009
Cash paid for capital expenditures	457	3	2	462

	As of or for the Three Months Ended June 30, 2019			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 755	\$ 132	\$ (5)	\$ 882
Depreciation and amortization	132	8	2	142
Total operating expenses, net	480	106	(6)	580
Interest, net	(74)	1	(21)	(94)
Income before income taxes	208	29	(10)	227
Provision for income taxes	52	8	(3)	57
Net income attributable to common shareholders	156	21	(7)	170
Total assets	19,338	1,056	1,460	21,854
Cash paid for capital expenditures	378	4	4	386

	As of or for the Six Months Ended June 30, 2020			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 1,523	\$ 260	\$ (8)	\$ 1,775
Depreciation and amortization	279	13	5	297
Total operating expenses, net	1,015	201	7	1,223
Interest, net	(146)	1	(52)	(197)
Income before income taxes	398	60	(67)	391
Provision for income taxes	98	16	(23)	91
Net income attributable to common shareholders	300	45	(45)	300
Total assets	21,536	1,075	1,398	24,009
Cash paid for capital expenditures	861	6	3	870

	As of or for the Six Months Ended June 30, 2019			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 1,440	\$ 266	\$ (11)	\$ 1,695
Depreciation and amortization	262	17	7	286
Total operating expenses, net	950	214	(9)	1,155
Interest, net	(147)	2	(42)	(187)
Income before income taxes	358	56	(35)	379
Provision for income taxes	92	15	(11)	96
Net income attributable to common shareholders	266	41	(24)	283
Total assets	19,338	1,056	1,460	21,854
Cash paid for capital expenditures	693	8	11	712

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read together with the unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-Q, and in the Company’s Form 10-K for the year ended December 31, 2019. This discussion contains forward-looking statements that are based on management’s current expectations, estimates and projections about the Company’s business, operations and financial performance. The cautionary statements made in this Form 10-Q should be read as applying to all related forward-looking statements whenever they appear in this Form 10-Q. The Company’s actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those that are discussed under “Forward-Looking Statements,” and elsewhere in this Form 10-Q. The Company has a disclosure committee consisting of members of senior management and other key employees involved in the preparation of the Company’s SEC reports. The committee is actively involved in the review and discussion of the Company’s SEC filings.*

**Overview**

American Water is the largest and most geographically diverse, publicly traded water and wastewater utility company in the United States, as measured by both operating revenues and population served. The Company’s primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the “Regulated Businesses.” Services provided by the Company’s utilities are subject to regulation by multiple state utility commissions or other entities engaged in utility regulation, collectively referred to as public utility commissions (“PUCs”). The Company also operates market-based businesses that provide complementary water, wastewater and other services to residential and smaller commercial customers, the U.S. government on military installations, as well as municipalities, utilities and industrial customers, collectively presented as the “Market-Based Businesses.” These Market-Based Businesses are not subject to economic regulation by state PUCs. See Part I, Item 1—Business in the Company’s Form 10-K for additional information.

**Novel Coronavirus (COVID-19) Pandemic Update**

American Water continues to monitor the global outbreak of the current novel coronavirus (“COVID-19”) pandemic and is taking steps to mitigate potential risks to the Company. American Water has three main areas of focus as part of its response to COVID-19: the care and safety of its employees; the safety of its customers and the communities it serves; and the execution of its business continuity plan. American Water is also working with its vendors to understand the potential impacts to its supply chain, and, at this time, it does not anticipate any material negative impacts to its supply chain. American Water is also monitoring impacts of the pandemic on its access to the capital markets, and to the extent such access is adversely affected, American Water may need to consider alternative sources of funding for its operations and for working capital, any of which could increase its cost of capital. In response to these events to address liquidity needs, the Company has taken the steps outlined below in “Recent Financing Activities” and further discussed in “Liquidity and Capital Resources.”

This pandemic is a rapidly evolving situation, and American Water continues to monitor developments affecting its employees, customers, contractors and vendors and take additional precautions as may be warranted. To date, the Company has experienced COVID-19 financial impacts, including an increase in uncollectible accounts expense, additional debt costs, and certain incremental operation and maintenance (“O&M”) expenses. The Company has also experienced decreased revenues as a result of the waiver of late fees, foregone reconnect fees, and lower base revenues, primarily from the Company’s commercial and industrial customers, partially offset by increased revenues from the Company’s residential customers. See Note 3—Impact of Novel Coronavirus (COVID-19) Pandemic in the Notes to Consolidated Financial Statements for additional information. The extent to which COVID-19 may further impact American Water, including without limitation, its liquidity, financial condition, and results of operations, will depend on future developments, which presently are highly uncertain and cannot be predicted.

The Company requested authorization for deferred accounting of COVID-19 financial impacts in all 14 regulatory jurisdictions in which it operates. As of August 5, 2020, American Water has commission orders authorizing deferred accounting for COVID-19 financial impacts in ten of 14 jurisdictions, with four requests pending. In addition to approving deferred accounting, two regulatory jurisdictions have also approved cost recovery mechanisms for COVID-19 financial impacts, as presented in the table below:

<b>Commission Orders</b>	<b>Description</b>	<b>States Allowed</b>
Regulatory assets	Allows the Company to establish regulatory assets to record certain financial impacts related to the COVID-19 pandemic.	CA, HI, IA, IL, IN, MD, NJ, PA, VA, WV
Cost recovery mechanisms	California’s Catastrophic Event Memorandum Account allows the Company to track and recover certain financial impacts related to the COVID-19 pandemic. Illinois has authorized cost recovery of COVID-19 financial impacts through a special purpose rider over a 24-month period.	CA, IL

Consistent with these regulatory orders, the Company recorded \$14 million in regulatory assets and \$2 million of regulatory liabilities for financial impacts related to the COVID-19 pandemic on the Consolidated Balance Sheets as of June 30, 2020.

### **Recent Financing Activities**

As a result of the COVID-19 pandemic and to ensure adequate liquidity, on March 20, 2020, American Water and American Water Capital Corp. (“AWCC”), a wholly owned finance subsidiary of American Water, entered into a Term Loan Credit Agreement that provides for a term loan facility of up to \$750 million (the “Term Loan Facility”). On March 20, 2020, AWCC borrowed \$500 million under the Term Loan Facility, the proceeds of which were used for general corporate purposes of AWCC and American Water, and to provide additional liquidity. The Term Loan Facility allowed for a single additional borrowing of up to \$250 million, which expired unused on June 19, 2020. See Note 8—Short-Term Debt in the Notes to Consolidated Financial Statements for additional information.

On April 14, 2020, AWCC completed a \$1.0 billion debt offering which included the sale of \$500 million aggregate principal amount of its 2.80% senior notes due 2030 and \$500 million aggregate principal amount of its 3.45% senior notes due 2050. Net proceeds of this offering were used to lend funds to parent company and its regulated subsidiaries, repay various senior notes and regulated subsidiary debt obligations at maturity, repay commercial paper obligations and short-term indebtedness under AWCC’s unsecured revolving credit facility, and for general corporate purposes. See Note 7—Long-Term Debt in the Notes to Consolidated Financial Statements for additional information.

### **Financial Results**

For the three and six months ended June 30, 2020, diluted earnings per share were \$0.97 and \$1.65, respectively, an increase of \$0.03 and \$0.09 per diluted share, respectively, as compared to the prior year. These increases were primarily driven by continued growth in the Regulated Businesses from infrastructure investment, acquisitions and organic growth, as well as the benefit related to depreciation expense not recorded during 2020 on the assets of the Company’s New York subsidiary, as required by assets held for sale accounting. Partially offsetting these increases were impacts from the COVID-19 pandemic, primarily from a net decrease in revenues in the Regulated Businesses and some delay in new partner relationships and launch of new products in the Homeowner Services Group (“HOS”). Additionally, during the first quarter of 2019, the Company recorded a \$4 million pre-tax benefit from the reduction of the liability related to the Freedom Industries chemical spill settlement in West Virginia. See “Segment Results of Operations” below for additional information.

### ***Growth—through capital investment in infrastructure and regulated acquisitions, as well as strategic growth opportunities in the Market-Based Businesses***

The Company expects to continue to grow its businesses, with the majority of its growth to be achieved in the Regulated Businesses through (i) continued capital investment in the Company’s infrastructure to provide safe, clean, reliable and affordable water and wastewater services to its customers, and (ii) regulated acquisitions to expand the Company’s services to new customers. The Company also expects to continue to grow the Market-Based Businesses, which leverages its core water and wastewater competencies. During the first six months of 2020, the Company invested \$930 million, primarily in the Regulated Businesses, as discussed below:

#### *Regulated Businesses Growth*

- \$881 million capital investment in the Regulated Businesses, the majority for infrastructure improvements and replacements.
- \$40 million to fund acquisitions in the Regulated Businesses, which added approximately 10,700 water and wastewater customers through the six months ended June 30, 2020.

During July 2020, the Company closed on the acquisition of one regulated water system, adding approximately 100 customers. As of August 5, 2020, the Company has entered into agreements for pending acquisitions in the Regulated Businesses to add approximately 43,600 additional customers. The Company plans to invest approximately \$1.9 billion as planned across its footprint in 2020.

### **Sale of New York American Water Company, Inc.**

On November 20, 2019, the Company and the Company's New York subsidiary entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with Liberty Utilities Co. ("Liberty"), pursuant to which Liberty will purchase all of the capital stock of the New York subsidiary (the "Stock Purchase") for an aggregate purchase price of approximately \$608 million in cash, subject to adjustment as provided in the Stock Purchase Agreement. The Company's regulated New York operations have approximately 125,000 customer connections in the State of New York. Algonquin Power & Utilities Corp., Liberty's parent company, executed and delivered an absolute and unconditional guaranty of the performance of the obligations of Liberty under the Stock Purchase Agreement. The Stock Purchase is subject to various conditions, including obtaining regulatory approval and satisfying or waiving other closing conditions. The Stock Purchase Agreement may be terminated by either party if the Stock Purchase is not completed by June 30, 2021, subject to extension for up to six months if all of the conditions to closing have been met, other than obtaining regulatory approvals. Liberty may also terminate the Stock Purchase Agreement if any governmental authority initiates a condemnation or eminent domain proceeding against a majority of the consolidated properties of the New York subsidiary, taken as a whole. Progress toward completion of the transaction continues, and subject to such closing conditions and no exercise of termination rights, the Company estimates that the Stock Purchase will be completed in early 2021. Accordingly, the assets and related liabilities of the New York subsidiary were classified as held for sale on the Consolidated Balance Sheets as of June 30, 2020. See Note 5—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for additional information.

### ***Operational Excellence***

The Company continues to strive for industry-leading operational efficiency. The Company's focus is aimed at enhancing its customer experience and operational efficiency, largely through the use of technology. The Company's adjusted regulated O&M efficiency ratio, which is used as a measure of the operating performance of the Regulated Businesses, was 34.3% for the twelve months ended June 30, 2020, as compared to 35.2% for the twelve months ended June 30, 2019. The improvement in this ratio reflects the continued focus on operating costs, as well as an increase in operating revenues for the Regulated Businesses.

The Company's adjusted regulated O&M efficiency ratio is a non-GAAP measure, and is defined as its operation and maintenance expenses from the Regulated Businesses, divided by the operating revenues from the Regulated Businesses, where both operation and maintenance expenses and operating revenues were adjusted to eliminate purchased water expense. Also excluded from operation and maintenance expenses are the allocable portion of non-operation and maintenance support services costs, mainly depreciation and general taxes, which are reflected in the Regulated Businesses segment as operation and maintenance expenses, but for consolidated financial reporting purposes, are categorized within other line items in the accompanying Consolidated Statements of Operations. The items discussed above were excluded from the O&M efficiency ratio calculation as they are not reflective of management's ability to increase the efficiency of the Regulated Businesses, and in preparing operating plans, budgets and forecasts and in assessing historical performance, management relies, in part, on trends in the Company's historical results, exclusive of these items.

The Company evaluates its operating performance using this ratio, and believes it is useful to investors because it directly measures improvement in the operating performance and efficiency of the Regulated Businesses. This information is derived from the Company's consolidated financial information but is not presented in its financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). This information supplements and should be read in conjunction with the Company's GAAP disclosures, and should be considered as an addition to, and not a substitute for, any GAAP measure. The Company's adjusted regulated O&M efficiency ratio is not an accounting measure that is based on GAAP, may not be comparable to other companies' operating measures and should not be used in place of the GAAP information provided elsewhere in this Form 10-Q.

Presented in the table below is the calculation of the Company's adjusted regulated O&M efficiency ratio and a reconciliation that compares operation and maintenance expenses and operating revenues, each as determined in accordance with GAAP, to those amounts utilized in the calculation of its adjusted O&M efficiency ratio:

(Dollars in millions)	For the Twelve Months Ended June 30,	
	2020	2019
Total operation and maintenance expenses	\$ 1,581	\$ 1,520
Less:		
Operation and maintenance expenses—Market-Based Businesses	384	387
Operation and maintenance expenses—Other	(17)	(48)
Total operation and maintenance expenses—Regulated Businesses	1,214	1,181
Less:		
Regulated purchased water expenses	142	132
Allocation of non-operation and maintenance expenses	30	33
Adjusted operation and maintenance expenses—Regulated Businesses (i)	\$ 1,042	\$ 1,016
Total operating revenues	\$ 3,690	\$ 3,521
Less:		
Operating revenues—Market-Based Businesses	533	528
Operating revenues—Other	(20)	(22)
Total operating revenues—Regulated Businesses	3,177	3,015
Less:		
Regulated purchased water revenues (a)	142	132
Adjusted operating revenues—Regulated Businesses (ii)	\$ 3,035	\$ 2,883
Adjusted O&M efficiency ratio—Regulated Businesses (i) / (ii)	34.3 %	35.2 %

(a) The calculation assumes regulated purchased water revenues approximate regulated purchased water expenses.

## Regulatory Matters

Presented in the table below are annualized incremental revenues, assuming a constant water sales volume, resulting from general rate cases authorizations that became effective:

(In millions)	During the Three Months Ended June 30, 2020	During the Six Months Ended June 30, 2020
General rate cases by state:		
Indiana (a)	\$ 13	\$ 13
California (b)	—	5
Total general rate cases	<u>\$ 13</u>	<u>\$ 18</u>
Infrastructure surcharges by state:		
New Jersey (effective January 1, 2020 and June 29, 2020)	\$ 10	\$ 20
Missouri (effective June 27, 2020)	10	10
Pennsylvania (effective January 1, 2020 and April 1, 2020)	5	15
Tennessee (c)	2	2
Illinois (effective January 1, 2020)	—	7
West Virginia (effective January 1, 2020)	—	3
Total infrastructure surcharges	<u>\$ 27</u>	<u>\$ 57</u>

- (a) The Company's Indiana subsidiary filed for and, on May 4, 2020, received approval to implement a \$13 million increase for the second rate year, effective May 1, 2020.
- (b) The Company's California subsidiary filed for the third year (2020) step increase requesting \$5 million associated with its most recent general case authorization. The \$5 million request was approved and the step rates became effective on January 1, 2020.
- (c) The Company's Tennessee subsidiary received approval on May 11, 2020, for infrastructure surcharges for annualized incremental revenues of \$2 million, effective January 1, 2020.

Directly related to the COVID-19 pandemic and its impacts on various processes, on March 25, 2020, the New York State Public Service Commission approved the Company's New York subsidiary's request to postpone the subsidiary's previously approved step increase, originally scheduled to go into effect April 1, 2020. Per the order, the rate increase will be postponed for five months until September 1, 2020, at which time the previously approved step increase will go into effect. The order further provides a make whole provision to recover the delayed revenues with no earnings impact. In addition to the rate increase postponement, the System Improvement Charge, normally scheduled to go into effect August 1, 2020, will also be postponed until September 1, 2020. The rate increase postponement is applicable to all customers, including residential and commercial customers and fire service and irrigation accounts.

Effective July 1, 2020, the Company's Pennsylvania and Kentucky subsidiaries implemented infrastructure surcharges for annualized incremental revenues of \$4 million and \$1 million, respectively.

### Pending General Rate Case Filings

On June 30, 2020, the Company's Missouri subsidiary filed a general rate case requesting \$78 million in annualized incremental revenues.

On April 29, 2020, the Company's Pennsylvania subsidiary filed a general rate case requesting \$92 million and \$46 million in annualized incremental revenues for rate year 1 and rate year 2, respectively. On May 28, 2020, the Office of Consumer Advocate filed a motion seeking an extension of the latest date new rates may become effective, and on June 4, 2020, the administrative law judge issued an order extending the statutory suspension period by 45 days from January 28, 2021 to March 4, 2021. On June 24, 2020, the Company's Pennsylvania subsidiary filed a petition for reconsideration of this order.

On December 16, 2019, the Company's New Jersey subsidiary filed a general rate case requesting \$88 million in annualized incremental revenues.

On July 1, 2019, the Company's California subsidiary filed a general rate case requesting \$26 million annualized incremental revenues for 2021, and increases of \$10 million and \$11 million in the escalation year of 2022 and the attrition year of 2023, respectively. On October 11, 2019, the Company filed its 100 day update for the same proceeding and updated the request to \$27 million annualized incremental revenues for 2021, and increases of \$10 million and \$10 million in the escalation year of 2022 and the attrition year of 2023, respectively. Directly related to the COVID-19 pandemic, the California Public Utilities Commission ("CPUC") suspended the procedural schedule in the general rate case and directed the parties to participate in an alternative dispute resolution process and provide a joint status conference statement by November 15, 2020.

On January 22, 2020, the Company's California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2021. On March 12, 2020, the California Public Utilities Commission granted the request for a one year extension of the cost of capital. The current cost of capital parameters will remain unchanged in 2021 and the subsidiary may file a new cost of capital application by May 1, 2021, to adjust its authorized cost of capital beginning January 1, 2022.

In 2018, the Company's Virginia subsidiary filed a general rate case requesting \$5 million in annualized incremental revenues. On May 1, 2019, interim rates under bond and subject to refund were implemented and will remain in effect until a final decision is received on this general rate case filing.

There is no assurance that all or any portion of these requests will be granted.

### ***Pending Infrastructure Surcharge Filings***

Presented in the table below are the Company's pending infrastructure surcharge filings:

(In millions)	Date Filed	Amount
Pending infrastructure surcharge filings by state:		
West Virginia	June 29, 2020	\$ 4
New York	May 29, 2020	1
Total pending infrastructure surcharge filings		<u>\$ 5</u>

There is no assurance that all or any portion of these requests will be granted.

### **Tax Matters**

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. The CARES Act includes certain tax relief provisions applicable to the Company including: (i) the immediate refund of the corporate alternative minimum tax credit; (ii) the ability to carryback net operating losses for five years for tax years 2018 through 2020; and (iii) delayed payment of employer payroll taxes. The Company is still evaluating the impact of the CARES Act, but it does not expect the CARES Act to have a material impact on the Company's Consolidated Financial Statements.

### **Legislative Updates**

During 2020, the Company's regulatory jurisdictions enacted the following legislation that has been approved and is effective as of August 5, 2020:

- Indiana House Enrolled Act 1131 establishes an appraisal process for non-municipal utilities to establish fair value and creates a presumption that the appraised value is a reasonable purchase price. Additionally, all new municipal systems will now be regulated for 10 years.
- Indiana Senate Enrolled Act 254 authorizes recovery without a full rate case for service enhancements for health, safety or environmental concerns for above ground infrastructure, and exempts relocation from distribution system improvement charge recovery caps.
- West Virginia Senate Bill 551 allows for expanded asset valuation, combined water and wastewater ratemaking and the expansion of how municipalities can utilize proceeds from the sale of a water or wastewater system.
- Iowa amended HF2452 legislation, which gives the Iowa Utilities Board 180 days to approve acquisitions and allows systems to qualify as a distressed system when they do not have a certified operator.

During 2020, the Company's regulatory jurisdictions enacted the following legislation that has been approved but is not yet effective as of August 5, 2020:

- Missouri House Bill 2120 requires most small community water utilities to establish a cyber security plan and valve and hydrant inspection program with reporting to the Department of Natural Resources certifying compliance with these provisions upon request.
- Virginia Senate Bill 831 establishes fair market value for the state, and the legislation authorizes a water or sewer public utility acquiring a water or sewer system to elect to have its rate base established by using the fair market value.

In July 2020, the CPUC released a proposed decision under its Low-Income Rate Payer Assistance program rulemaking, which if adopted would require the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would become effective in January 2024. The Company's California subsidiary provided comments on the proposed decision on July 27, 2020. The CPUC will consider the proposed decision no earlier than August 6, 2020.

### **Condemnation and Eminent Domain**

All or portions of the Regulated Businesses' utility assets could be acquired by state, municipal or other government entities through one or more of the following methods: (i) eminent domain (also known as condemnation); (ii) the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity (a "CPCN") was granted; and (iii) the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its CPCN. The acquisition consideration related to such a proceeding initiated by a local government may be determined consistent with applicable eminent domain law, or may be negotiated or fixed by appraisers as prescribed by the law of the state or in the particular CPCN.

As such, the Regulated Businesses are periodically subject to condemnation proceedings in the ordinary course of business. For example, a citizens group in Monterey, California successfully added "Measure J" to the November 2018 election ballot asking voters to decide whether the Monterey Peninsula Water Management District (the "MPWMD") should conduct a feasibility study concerning the potential purchase of the Monterey water service system assets (the "Monterey system assets") of the Company's California subsidiary, and, if feasible, to proceed with a purchase of those assets without an additional public vote. This service territory represents approximately 40,000 customers. In November 2018, Measure J was certified to have passed.

On August 19, 2019, the MPWMD's General Manager issued a report that recommends that the MPWMD board (1) develop criteria to determine which water systems should be considered for acquisition, (2) examine the feasibility of acquiring the Monterey system assets and consider public ownership of smaller systems only if the MPWMD becomes the owner of a larger system, (3) evaluate whether it is in the public interest to acquire the Monterey system assets and sufficiently satisfy the criterion of "feasible" as provided in Measure J, (4) ensure there is significant potential for cost savings before agreeing to commence an acquisition, and (5) develop more fully alternate operating plans before deciding whether to consider a Resolution of Necessity.

On November 6, 2019, the MPWMD issued a preliminary valuation and cost of service analysis report, finding in part that (1) an estimate of the Monterey system assets' total value plus adjustments would be approximately \$513 million, (2) the cost of service modeling results indicate significant annual reductions in revenue requirements and projected monthly water bills, and (3) the acquisition of the Monterey system assets by the MPWMD would be economically feasible. On June 12, 2020, the MPWMD issued a draft environmental impact report for the potential acquisition of the Monterey system assets and a related district boundary adjustment that would be required if the MPWMD were to acquire and operate certain of the Monterey system assets located outside the MPWMD's boundaries. Comments on the draft report are due August 3, 2020. If the MPWMD were to make a final determination that an acquisition of the Monterey system assets is feasible, a multi-year eminent domain proceeding against the Company's California subsidiary would need to be commenced by the MPWMD to first establish its right to take the Monterey system assets and, if such right is established, to determine the amount of just compensation to be paid to the California subsidiary for such assets.

Also, five municipalities in the Chicago, Illinois area (approximately 30,300 customers in total) formed a water agency and filed an eminent domain lawsuit against the Company's Illinois subsidiary in January 2013, seeking to condemn the water pipeline that serves those five municipalities. Before filing its eminent domain lawsuit, the water agency made an offer of \$38 million for the pipeline. The parties have filed with the court updated valuation reports. A valuation trial to establish the value of the pipeline has been scheduled for the week of December 14, 2020.

Furthermore, the law in certain jurisdictions in which the Regulated Businesses operate provides for eminent domain rights allowing private property owners to file a lawsuit to seek just compensation against a public utility, if a public utility's infrastructure has been determined to be a substantial cause of damage to that property. In these actions, the plaintiff would not have to prove that the public utility acted negligently. In California, lawsuits have been filed in connection with large-scale natural events such as wildfires. Some have included allegations that infrastructure of certain utilities triggered the natural event that resulted in damage to the property. In some cases, the PUC has allowed certain costs or losses incurred by the utility to be recovered from customers in rates, but in other cases such recovery in rates has been disallowed. Also, the utility may have obtained insurance that could respond to some or all of such losses, although the utility would be at risk for any losses not ultimately subject to rate or insurance recovery or losses that exceed the limits of such insurance.

### Consolidated Results of Operations

Presented in the table below are the Company's consolidated results of operations:

(In millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Operating revenues	\$ 931	\$ 882	\$ 1,775	\$ 1,695
Operating expenses:				
Operation and maintenance	391	372	774	737
Depreciation and amortization	152	142	297	286
General taxes	75	72	152	141
(Gain) on asset dispositions and purchases	—	(6)	—	(9)
Total operating expenses, net	618	580	1,223	1,155
Operating income	313	302	552	540
Other income (expense):				
Interest, net	(101)	(94)	(197)	(187)
Non-operating benefit costs, net	12	4	25	8
Other, net	8	15	11	18
Total other income (expense)	(81)	(75)	(161)	(161)
Income before income taxes	232	227	391	379
Provision for income taxes	56	57	91	96
Net income attributable to common shareholders	\$ 176	\$ 170	\$ 300	\$ 283

The main factors contributing to the \$6 million and \$17 million increases in net income attributable to common shareholders for the three and six months ended June 30, 2020, respectively, are described in "Segment Results of Operations" below. Partially offsetting the increases in net income described below, there was higher interest expense at parent company supporting growth in the business during the three and six months ended June 30, 2020.

### Segment Results of Operations

The Company's operating segments are comprised of the revenue-generating components of its business for which separate financial information is internally produced and regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates its business primarily through one reportable segment, the Regulated Businesses segment. The Company also operates market-based businesses that, individually, do not meet the criteria of a reportable segment in accordance with GAAP, and are collectively presented as the Market-Based Businesses, which is consistent with how management assesses the results of these businesses.

## Regulated Businesses Segment

Presented in the table below is financial information for the Regulated Businesses:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
<b>(In millions)</b>				
Operating revenues	\$ 803	\$ 755	\$ 1,523	\$ 1,440
Operation and maintenance	299	287	597	565
Depreciation and amortization	144	132	279	262
General taxes	70	67	142	131
(Gain) on asset dispositions and purchases	(1)	(6)	(3)	(8)
Other income (expenses)	(56)	(67)	(110)	(132)
Income before income taxes	236	208	398	358
Provision for income taxes	58	52	98	92
Net income attributable to common shareholders	177	156	300	266

## Operating Revenues

Presented in the tables below is information regarding the main components of the Regulated Businesses' operating revenues, with explanations for material variances provided in the ensuing discussions:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
<b>(In millions)</b>				
Water services:				
Residential	\$ 474	\$ 415	\$ 873	\$ 793
Commercial	142	153	284	289
Fire service	36	35	73	69
Industrial	31	34	63	66
Public and other	62	68	118	120
Total water services	745	705	1,411	1,337
Wastewater services	46	40	89	80
Other (a)	12	10	23	23
Total operating revenues	\$ 803	\$ 755	\$ 1,523	\$ 1,440

(a) Includes other operating revenues consisting primarily of miscellaneous utility charges, fees and rents.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
<b>(Gallons in millions)</b>				
Billed water services volumes:				
Residential	42,408	39,106	77,958	74,873
Commercial	15,798	19,197	32,878	36,633
Industrial	8,058	9,164	16,497	17,809
Fire service, public and other	11,085	12,119	22,631	23,210
Billed water services volumes	77,349	79,586	149,964	152,525

For the three months ended June 30, 2020, operating revenues increased \$48 million, primarily due to: (i) \$29 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states; (ii) \$9 million increase from water and wastewater acquisitions, as well as organic growth in existing systems; and (iii) \$7 million increase in demand, including \$11 million increase driven by unusually wet weather conditions experienced in the Northeast and Midwest during the second quarter of 2019, offset by \$10 million of lower demand as a result of the COVID-19 pandemic, primarily from decreased revenues from the Company's commercial and industrial customers, partially offset by increased revenues from the Company's residential customer.

For the six months ended June 30, 2020, operating revenues increased \$83 million, primarily due to: (i) \$60 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states; (ii) \$16 million increase from water and wastewater acquisitions, as well as organic growth in existing systems; and (iii) \$6 million increase in demand, including \$11 million increase driven by unusually wet weather conditions experienced in the Northeast and Midwest during the second quarter of 2019, offset by \$10 million of lower demand as a result of the COVID-19 pandemic, primarily from decreased revenues from the Company's commercial and industrial customers, partially offset by increased revenues from the Company's residential customers.

### **Operation and Maintenance**

Presented in the table below is information regarding the main components of the Regulated Businesses' operating and maintenance expense, with explanations for material variances provided in the ensuing discussions:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
<b>(In millions)</b>				
Employee-related costs	\$ 119	\$ 115	\$ 244	\$ 232
Production costs	81	75	153	144
Operating supplies and services	54	56	110	111
Maintenance materials and supplies	19	18	38	37
Customer billing and accounting	13	13	27	24
Other	13	10	25	17
<b>Total</b>	<b>\$ 299</b>	<b>\$ 287</b>	<b>\$ 597</b>	<b>\$ 565</b>

For the three months ended June 30, 2020, operation and maintenance expense increased \$12 million, primarily due to: (i) \$4 million increase in employee-related costs primarily from higher group insurance costs due to higher rates in 2020; and (ii) \$6 million increase in production costs primarily due to higher purchased water usage across several subsidiaries, including the Company's California and New Jersey subsidiaries.

For the six months ended June 30, 2020, operation and maintenance expense increased \$32 million, primarily due to: (i) \$12 million increase in employee-related costs from higher headcount and related compensation expense in support of the growth in the business, as well as higher group insurance costs due to higher rates in 2020, and higher pension expense due to higher service costs; (ii) \$9 million increase in production costs primarily due to higher purchased water usage across several subsidiaries, including the Company's California subsidiary; (iii) \$3 million increase in customer billing and accounting primarily due to higher customer uncollectible expense; and (iv) \$8 million increase in other operation and maintenance expense principally due to a \$4 million reduction to the liability related to the Freedom Industries chemical spill, recorded in the first quarter of 2019.

### **Depreciation and Amortization**

For the three and six months ended June 30, 2020, depreciation and amortization increased \$12 million and \$17 million, respectively, primarily due to additional utility plant placed in service.

### **General Taxes**

For the three and six months ended June 30, 2020, general taxes increased \$3 million and \$11 million, respectively, primarily due to increased property assessments and incremental property taxes in several of the Company's subsidiaries, including in Pennsylvania and New Jersey.

***(Gain) on Asset Dispositions and Purchases***

For the three and six months ended June 30, 2020, (gain) on asset dispositions and purchases decreased \$5 million and \$5 million, respectively, primarily due to a \$6 million pre-tax gain recognized on a land sale in the Company's Pennsylvania subsidiary during the second quarter of 2019.

***Other Income (Expenses)***

For the three and six months ended June 30, 2020, other income (expenses) increased \$11 million and \$22 million, respectively, primarily due to reduction in the non-service cost components of pension and other postretirement benefits expense resulting from favorable actuarial performance.

***Provision for Income Taxes***

For the three and six months ended June 30, 2020, the Company's provision for income taxes increased \$6 million and \$6 million, respectively, primarily due to an increase in pre-tax income.

**Market-Based Businesses**

Presented in the table below is information for the Market-Based Businesses, with explanations for material variances provided in the ensuing discussions:

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>(In millions)</b>				
Operating revenues	\$ 132	\$ 132	\$ 260	\$ 266
Operation and maintenance	94	96	185	194
Depreciation and amortization	7	8	13	17
Income before income taxes	30	29	60	56
Provision for income taxes	8	8	16	15
Net income attributable to common shareholders	23	21	45	41

***Operating Revenues***

For the three months ended June 30, 2020, operating revenues remained consistent primarily due to: (i) \$14 million decrease from the sale of the Company's Keystone Clearwater Solutions, LLC ("Keystone") operations in the fourth quarter of 2019; (ii) \$3 million decrease from the expiration of the Company's contract with the Township of Edison, New Jersey in 2019; (iii) \$14 million increase in Military Services Group ("MSG") from increased capital upgrades primarily at Fort Polk and the Picatinny Arsenal, and the addition of two new military contracts in 2019 (Joint Base San Antonio and the United States Military Academy at West Point, New York); and (iv) \$4 million increase in HOS primarily from price increases for existing customers and contract growth.

For the six months ended June 30, 2020, operating revenues decreased \$6 million, primarily due to: (i) \$30 million decrease from the sale of the Company's Keystone operations in the fourth quarter of 2019; (ii) \$5 million decrease from the expiration of the Company's contract with the Township of Edison, New Jersey in 2019; (iii) \$23 million increase in MSG from increased capital upgrades primarily at Fort Leonard Wood, Fort Polk and Fort Hood, and the addition of two new military contracts in 2019 (Joint Base San Antonio and the United States Military Academy at West Point, New York); and (iv) \$8 million increase in HOS primarily from price increases for existing customers and contract growth.

***Operation and Maintenance***

For the three months ended June 30, 2020, operation and maintenance expense decreased \$2 million, primarily due to: (i) \$11 million decrease from the sale of the Company's Keystone operations, as discussed above; and (ii) \$12 million increase in MSG from increased capital upgrades, as discussed above.

For the six months ended June 30, 2020, operation and maintenance expense decreased \$9 million, primarily due to: (i) \$25 million decrease from the sale of the Company's Keystone operations, as discussed above; (ii) \$3 million decrease from the expiration of the Company's contract with the Township of Edison, New Jersey in 2019; and (iii) \$20 million increase in MSG from increased capital upgrades, as discussed above.

### Depreciation and Amortization

For the three and six months ended June 30, 2020, depreciation and amortization decreased \$1 million and \$4 million, respectively, primarily due to the sale of the Company's Keystone operations in the fourth quarter of 2019.

### Liquidity and Capital Resources

For a general overview of the sources and uses of capital resources, see the introductory discussion in Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources in the Company's Form 10-K.

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets, and, if and to the extent necessary, borrowings under AWCC's revolving credit facility.

The Company continues to assess its short and long-term liquidity needs in light of the impact of the COVID-19 pandemic on the financial and capital markets. On March 20, 2020, AWCC entered into a \$750 million 364-day term loan credit facility and immediately executed a \$500 million draw thereunder to support the Company's short-term liquidity by retaining that amount in cash. The term loan facility allowed for a single additional borrowing of up to \$250 million, which expired unused on June 19, 2020. The Company has also utilized its existing sources of liquidity, such as current cash balances, cash flows from operations and borrowings under the revolving credit facility as necessary or desirable to meet the Company's short-term liquidity requirements. The Company had cash and cash equivalents of \$569 million as of June 30, 2020.

The Company's revolving credit facility provides \$2.25 billion in aggregate total commitments from a diversified group of financial institutions. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support, and to provide for the issuance of up to \$150 million in letters of credit. The maximum aggregate principal amount of short-term borrowings authorized for issuance under AWCC's commercial paper program is \$2.10 billion. Subject to satisfying certain conditions, the credit agreement also permits AWCC to increase the maximum commitment under the facility by up to an aggregate of \$500 million. As of June 30, 2020, AWCC had no outstanding borrowings and \$76 million of outstanding letters of credit under the revolving credit facility, and \$420 million of outstanding commercial paper, with \$1.75 billion available to fulfill short-term liquidity needs and to issue letters of credit. During the six months ended June 30, 2020, the Company drew down and subsequently paid off \$650 million of borrowings under the revolving credit facility. The weighted-average interest rate on AWCC short-term borrowings outstanding, including \$500 million of outstanding principal on the Term Loan Facility as of June 30, 2020, was approximately 1.06% and 1.86% at June 30, 2020 and December 31, 2019, respectively. On April 1, 2020, the termination date of the credit agreement with respect to AWCC's revolving credit facility was extended, pursuant to the terms of the credit agreement, from March 21, 2024 to March 21, 2025.

Presented in the table below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility, as well as the available capacity for each as of June 30, 2020:

(In millions)	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	\$ 2,100	\$ 150	\$ 2,250
Outstanding commercial paper	(420)	—	(420)
Outstanding letters of credit	—	(76)	(76)
Total outstanding	(420)	(76)	(496)
Remaining availability as of June 30, 2020	\$ 1,680	\$ 74	\$ 1,754

(a) Total remaining availability of \$1.75 billion as of June 30, 2020 may be accessed through revolver draws.

Presented in the table below is the Company's total available liquidity as of June 30, 2020:

(In millions)	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of June 30, 2020	\$ 569	\$ 1,754	\$ 2,323

The Company believes that existing sources of liquidity are sufficient to meet its cash requirements for the foreseeable future. However, as the impacts of the COVID-19 pandemic on the economy, the financial and capital markets, and the Company's operations evolve, the Company will continue to assess its liquidity needs. Though not currently anticipated, no assurances can be provided that the lenders will meet existing commitments to AWCC under the revolving credit facility, or that AWCC will be able to access the commercial paper or loan markets in the future on acceptable terms. In the event of a sustained market deterioration, the Company may need to obtain additional sources of liquidity, which would require the Company to evaluate available alternatives and take appropriate actions. See Note 8—Short-Term Debt in the Notes to Consolidated Financial Statements for additional information.

On April 14, 2020, AWCC completed a \$1.0 billion debt offering which included the sale of \$500 million aggregate principal amount of its 2.80% senior notes due 2030 and \$500 million aggregate principal amount of its 3.45% senior notes due 2050. At the closing of the offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of \$989 million. AWCC used the net proceeds of this offering: (i) to lend funds to parent company and its regulated subsidiaries; (ii) to fund sinking fund payments for, and to repay at maturity, \$28 million in aggregate principal amount of outstanding long-term debt of AWCC and certain of the Company's regulated subsidiaries; (iii) to repay AWCC's commercial paper obligations and short-term indebtedness under AWCC's \$2.25 billion unsecured revolving credit facility; and (iv) for general corporate purposes. In connection with the debt offering, the Company entered into four 10-year treasury lock agreements during March 2020, each with a notional amount of \$100 million, to reduce interest rate exposure on debt. These treasury lock agreements had an average fixed rate of 0.94% and were terminated on April 8, 2020. See Note 7—Long-Term Debt in the Notes to Consolidated Financial Statements for additional information.

**Cash Flows Provided by Operating Activities**

Cash flows provided by operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the warmer months. Presented in the table below is a summary of the major items affecting the Company's cash flows provided by operating activities:

	<b>For the Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>(In millions)</b>		
Net income	\$ 300	\$ 283
Add (less):		
Depreciation and amortization	297	286
Deferred income taxes and amortization of investment tax credits	96	85
Other non-cash activities (a)	(30)	(36)
Changes in working capital (b)	(104)	(94)
Settlement of cash flow hedges	(6)	(30)
Pension and postretirement healthcare contributions	(22)	(14)
<b>Net cash flows provided by operations</b>	<b>\$ 531</b>	<b>\$ 480</b>

(a) Includes provision for losses on accounts receivable, (gain) on asset dispositions and purchases, pension and non-pension postretirement benefits and other non-cash, net. Details of each component can be found on the Consolidated Statements of Cash Flows.

(b) Changes in working capital include changes to receivables and unbilled revenues, accounts payable and accrued liabilities, and other current assets and liabilities, net, less the settlement of cash flow hedges.

For the six months ended June 30, 2020, cash flows provided by operating activities increased \$51 million, primarily due to an increase in net income and the decrease in cash paid for the settlement of cash flow hedges in 2020 compared to the prior year in connection with AWCC's 2020 and 2019 debt offerings. The main factors contributing to the increase in net income are described in "Consolidated Results of Operations" and "Segment Results of Operations" above.

**Cash Flows Used in Investing Activities**

Presented in the table below is a summary of the major items affecting the Company's cash flows used in investing activities:

	<b>For the Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>(In millions)</b>		
Net capital expenditures	\$ (870)	\$ (712)
Acquisitions	(40)	(80)
Other investing activities, net (a)	(48)	(25)
Net cash flows used in investing activities	<u>\$ (958)</u>	<u>\$ (817)</u>

(a) Includes removal costs from property, plant and equipment retirements and proceeds from sale of assets.

For the six months ended June 30, 2020, cash used in investing activities increased \$141 million, primarily due to continued investment across all infrastructure categories, mainly replacement and renewal of transmission and distribution infrastructure in the Company's Regulated Businesses. Additionally, proceeds from the sale of assets were higher in 2019 compared to 2020. Partially offsetting these increases was a decrease in acquisitions primarily due to the acquisition of the City of Alton, Illinois' regional wastewater system for \$55 million in the second quarter of 2019. The Company plans to invest approximately \$1.9 billion as planned across its footprint in 2020.

**Cash Flows Provided by Financing Activities**

Presented in the table below is a summary of the major items affecting the Company's cash flows provided by financing activities:

	<b>For the Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>(In millions)</b>		
Proceeds from long-term debt	\$ 1,163	\$ 1,184
Repayments of long-term debt	(166)	(146)
Proceeds from term loan	500	—
Net repayments of short-term borrowings	(367)	(568)
Dividends paid	(190)	(173)
Anti-dilutive stock repurchases	—	(36)
Other financing activities, net (a)	1	4
Net cash flows provided by financing activities	<u>\$ 941</u>	<u>\$ 265</u>

(a) Includes proceeds from issuances of common stock under various employee stock plans and the dividend reinvestment plan, net of taxes paid, and advances and contributions for construction, net of refunds.

For the six months ended June 30, 2020, cash flows provided by financing activities increased \$676 million, primarily due to the \$500 million borrowed under the Term Loan Facility during the first quarter of 2020, lower net repayments of commercial paper borrowings and no anti-dilutive stock repurchases in 2020, partially offset by higher dividends paid in 2020.

**Debt Covenants**

The Company's debt agreements contain financial and non-financial covenants. To the extent that the Company is not in compliance with these covenants, an event of default may occur under one or more debt agreements and the Company or its subsidiaries may be restricted in its ability to pay dividends, issue new debt or access the revolving credit facility. The long-term debt indentures contain a number of covenants that, among other things, prohibit or restrict the Company from issuing debt secured by the Company's assets, subject to certain exceptions. Failure to comply with any of these covenants could accelerate repayment obligations.

Covenants in certain long-term notes, the term loan facility and the revolving credit facility require the Company to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On June 30, 2020, the Company's ratio was 0.63 to 1.00 and therefore the Company was in compliance with the covenants.

### **Security Ratings**

Presented in the table below are long-term and short-term credit ratings and rating outlooks as of August 5, 2020 as issued by the following rating agencies:

<b>Securities</b>	<b>Moody's Investors Service</b>	<b>Standard &amp; Poor's Ratings Service</b>
Rating outlook	Stable	Stable
Senior unsecured debt	Baa1	A
Commercial paper	P-2	A-1

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

As part of its normal course of business, the Company routinely enters into contracts for the purchase and sale of water, energy, chemicals and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that the Company must provide collateral to secure its obligations. The Company does not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Access to the capital markets, including the commercial paper market, and respective financing costs in those markets, may be directly affected by the Company's securities ratings. The Company primarily accesses the debt capital markets, including the commercial paper market, through AWCC. However, the Company has also issued debt through its regulated subsidiaries, primarily in the form of tax-exempt securities or borrowings under state revolving funds, to lower the overall cost of debt.

### **Dividends**

For discussion of the Company's dividends, see Note 6—Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information.

### **Application of Critical Accounting Policies and Estimates**

Financial condition of the Company, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates in the Company's Form 10-K for a discussion of its critical accounting policies. Additionally, see Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for updates to the significant accounting policies previously disclosed in the Company's Form 10-K.

### **Recent Accounting Standards**

See Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for a description of new accounting standards recently adopted or pending adoption.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risk in the normal course of business, including changes in commodity prices, equity prices and interest rates. For further discussion of its exposure to market risk, see Part II, Item 7A—Quantitative and Qualitative Disclosures about Market Risk in the Company's Form 10-K. Except as described below, there have been no significant changes to the Company's exposure to market risk since December 31, 2019.

On April 8, 2020, the Company terminated four treasury lock agreements with an aggregate notional amount of \$400 million, and as a result, the Company had no significant derivative instruments outstanding as of June 30, 2020.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

American Water maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2020.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2020, the Company's disclosure controls and procedures were effective at a reasonable level of assurance.

### **Changes in Internal Control over Financial Reporting**

The Company concluded that there have been no changes in internal control over financial reporting that occurred during the three months ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The following information updates and amends the information provided in the Company's Form 10-K in Part I, Item 3—Legal Proceedings, and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 in Part II, Item 1—Legal Proceedings. Capitalized terms used but not otherwise defined herein have the meanings set forth in the Company's Form 10-K.

#### **Alternative Water Supply in Lieu of Carmel River Diversions**

##### ***Compliance with SWRCB Orders to Reduce Carmel River Diversions***

Cal Am continues to work constructively with all appropriate agencies to provide necessary information in connection with obtaining required approvals for the Water Supply Project. However, based on the matters discussed in Part I, Item 3—Legal Proceedings—Alternative Water Supply in Lieu of Carmel River Diversions—Monterey Peninsula Water Supply Project in the Company's Form 10-K, as amended by the disclosures below, there can be no assurance that the Water Supply Project in its current configuration will be completed on a timely basis, if ever. Due to the delay in the approval schedule, Cal Am currently does not believe that it will be able to fully comply with the diversion reduction requirements and other remaining requirements under the 2009 Order and the 2016 Order, including the 2021 Deadline. Cal Am has notified the SWRCB that, due to circumstances beyond Cal Am's control, an interim 2020 milestone for construction of the Water Supply Project set forth in the 2016 Order will not be met, potentially triggering a diversion reduction requirement. The SWRCB has the option to suspend the diversion reduction, or otherwise modify the schedule in the 2016 Order, should it choose. The CPUC's final decision approving the Water Supply Project permits recovery of all of Cal Am's prudently incurred costs associated therewith, subject to the frameworks set forth in the final decision related to cost caps, O&M costs, financing, ratemaking and contingency matters. Cal Am currently believes that its expenditures to date have been prudent and necessary to comply with the 2009 Order and the 2016 Order. Further attempts to comply with the 2009 Order and the 2016 Order, or the 2021 Deadline, may result in material additional costs or obligations to Cal Am, and failure to comply could lead to fines and penalties against Cal Am.

##### ***Monterey Peninsula Water Supply Project***

###### ***Coastal Development Permit Application***

On April 16, 2020, due to the COVID-19 pandemic, the State of California issued an order suspending for 60 days all deadlines under the Permit Streamlining Act. This action effectively extends the Coastal Commission's deadline to vote on Cal Am's original jurisdiction application from July 24, 2020 to September 22, 2020. The Coastal Commission has informed Cal Am that it plans to consider Cal Am's application at a future meeting, likely to be held on September 17, 2020.

###### ***Desalination Plant Development Permit***

The Monterey County Superior Court extended the stay on the commencement of physical construction of the desalination plant to August 25, 2020. The court has also set a briefing schedule and a hearing on MCWD's petition for October 6, 2020.

###### ***Water Supply Project Land Use Acquisition and Slant Well Site Use***

On May 8, 2020, the City filed a lawsuit, which it amended on June 29, 2020, in Monterey County Superior Court, naming Cal Am and CEMEX as defendants, and MCWRA and MCWD as real parties in interest. The lawsuit alleges a claim for breach of contract against CEMEX and seeks a declaration voiding the permanent easement to Cal Am and prohibiting extraction of water by Cal Am's slant wells at the CEMEX site in excess of 500 acre-feet per year and the export of such water outside the groundwater basin. Cal Am intends to defend itself vigorously against these claims.

##### **Dunbar, West Virginia Water Main Break Class Action Litigation**

On February 4, 2020, the *Jeffries* plaintiffs filed a motion seeking class certification on the issues of breach of contract and negligence, and to determine the applicability of punitive damages and a multiplier for those damages, if imposed. On February 25, 2020, WVAWC filed a response to the motion, claiming that the *Jeffries* plaintiffs failed to prove the mandatory elements required for class certification. A hearing on class certification was held on March 11, 2020, followed by a status conference on April 7, 2020. On June 11, 2020, the court ruled that it would partially grant the *Jeffries* plaintiffs' motion for certification of an issues class and would deny the request for certification of a class to determine a punitive damages multiplier for the class. On July 14, 2020, the court entered an order reflecting its June 11, 2020 rulings, and WVAWC intends to appeal this order to the West Virginia Supreme Court of Appeals. The court also set a new trial date for April 12, 2021 and requested the parties prepare an appropriate scheduling order.

## **Chattanooga, Tennessee Water Main Break Class Action Litigation**

On November 22, 2019, the Tennessee-American Water Defendants filed a motion to dismiss the complaint for failure to state a claim upon which relief may be granted, and, with respect to the Company, for lack of personal jurisdiction. A hearing on this motion was held on February 18, 2020. On June 8, 2020, the judge hearing the case transferred the matter to a different judge prior to ruling on the motion to dismiss. Oral argument on the motion to dismiss has been scheduled for September 9, 2020.

## **ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Part I, Item 1A—Risk Factors in the Form 10-K, and in the Company’s other filings with the SEC, which could materially affect the Company’s business, financial condition, cash flows or future results. There have been no material changes from the risk factors previously disclosed in Part I, Item 1A—Risk Factors in the Form 10-K, other than as set forth below.

In this Item 1A, unless the context otherwise requires, references to “we,” “us,” “our,” and “American Water” mean American Water Works Company, Inc. and its subsidiaries, taken together as a whole. Capitalized terms used but not otherwise defined herein shall have the meaning ascribed to them in the Form 10-K.

***Our utility operations are subject to extensive regulation by state PUCs and other regulatory agencies, which significantly affects our business, financial condition, results of operations and cash flows. Our utility operations also may be subject to fines, penalties and other sanctions for an inability to meet these regulatory requirements.***

Our Regulated Businesses provide water and wastewater services to our customers through subsidiaries that are subject to regulation by state PUCs. This regulation affects the rates we charge our customers and has a significant impact on our business and results of operations. Generally, the state PUCs authorize us to charge rates that they determine are sufficient to recover our prudently incurred operating expenses, including, but not limited to, operating and maintenance costs, depreciation, financing costs and taxes, and provide us the opportunity to earn an appropriate rate of return on invested capital.

Our ability to successfully implement our business plan and strategy depends on the rates authorized by the various state PUCs. We periodically file rate increase applications with state PUCs. The ensuing administrative process may be lengthy and costly. Our rate increase requests may or may not be approved, or may be partially approved, and any approval may not occur in a timely manner. Moreover, a PUC may not approve a rate request to an extent that is sufficient to:

- cover our expenses, including purchased water and costs of chemicals, fuel and other commodities used in our operations;
- enable us to recover our investment; and
- provide us with an opportunity to earn an appropriate rate of return on our investment.

Approval of the PUCs is also required in connection with other aspects of our utilities’ operations. Some state PUCs are empowered to impose financial penalties, fines and other sanctions for non-compliance with applicable rules and regulations. Our utilities are also required to have numerous permits, approvals and certificates from the PUCs that regulate their businesses and authorize acquisitions, dispositions, and, in certain cases, affiliated transactions. Although we believe that each utility subsidiary has obtained or sought renewal of the material permits, approvals and certificates necessary for its existing operations, we are unable to predict the impact that future regulatory activities may have on our business.

The current COVID-19 pandemic may limit or curtail significantly or entirely the ability of PUCs to approve or authorize applications and other requests we may make with respect to our Regulated Businesses, including without limitation any or all types of approvals described above, as PUCs and their staffs seek to reduce, delay or streamline proceedings and other activities. PUCs and other governmental authorities have taken, and may continue to take, emergency or other actions in light of the pandemic that may impact us, including prohibiting the termination of service for non-payment during the current COVID-19 pandemic and extending or delaying procedural schedules in our regulatory proceedings. At this time, we are unable to predict the range of impacts that this pandemic or other related events may have on our ability to obtain these approvals as needed or requested by the Regulated Businesses in the ordinary course or at all, or the nature of any further emergency or other action that may be taken by the PUCs or other governmental authorities.

In any of these cases, our business, financial condition, results of operations, cash flows and liquidity may be adversely affected. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on our invested capital to the extent permitted by state PUCs. This could occur if certain conditions exist, including, but not limited to, if water usage is less than the level anticipated in establishing rates, whether due to conservation efforts, impacts of the COVID-19 pandemic or otherwise, or if our investments or expenses prove to be higher than the level estimated in establishing rates.

***Service disruptions caused by severe weather conditions, climate variability patterns or natural or other disasters may disrupt our operations or reduce the demand for our water services, which could adversely affect our financial condition, results of operations, cash flows and liquidity.***

Service interruptions due to severe weather, climate variability patterns and natural or other events are possible across all our businesses. These include, among other things, storms, freezing conditions, high wind conditions, hurricanes, tornadoes, earthquakes, landslides, drought, wildfires, coastal and intercoastal floods or high water conditions, including those in or near designated flood plains, pandemics (including COVID-19) and epidemics, severe electrical storms, sinkholes and solar flares. Weather and other natural events such as these may affect the condition or operability of our facilities, limiting or preventing us from delivering water or wastewater services to our customers, or requiring us to make substantial capital expenditures to repair any damage. Tariffs in place or cost recovery proceedings with respect to our Regulated Businesses may not provide reimbursement to us, in whole or in part, for any of these impacts.

Government restrictions on water use may also result in decreased use of water services, even if our water supplies are sufficient to serve our customers, which may adversely affect our financial condition, results of operations and cash flows. Seasonal drought conditions that may impact our water services are possible across all of our service areas. Governmental restrictions imposed in response to a drought may apply to all systems within a region independent of the supply adequacy of any individual system. Responses may range from voluntary to mandatory water use restrictions, rationing restrictions, water conservation regulations, and requirements to minimize water system leaks. While expenses incurred in implementing water conservation and rationing plans may generally be recoverable provided the relevant PUC determines they were reasonable and prudent, we cannot assure that any such expenses incurred will, in fact, be fully recovered. Moreover, reductions in water consumption, including those resulting from installation of equipment or changed consumer behavior, may persist even after drought restrictions are repealed and the drought has ended, which could adversely affect our business, financial condition, results of operations and cash flows.

***A loss of one or more large industrial or commercial customers could have a material adverse impact upon the results of operations of one or more of our Regulated Businesses.***

Adverse economic conditions, the COVID-19 pandemic or other factors may cause our customers, particularly industrial and large commercial customers, to curtail operations. A curtailment of operations by such a customer would typically result in reduced water usage by that customer. In more severe circumstances, the decline in usage could be permanent. For the first six months of 2020, the Company's regulated revenues increased by approximately \$83 million, which included \$10 million in estimated lower revenues from the impact of COVID-19 on net customer demand, related mainly to industrial and commercial customers. Any decrease in demand resulting from difficult economic conditions or the current COVID-19 pandemic affecting these customers could adversely affect our financial condition and results of operations. Tariffs in place with respect to our Regulated Businesses may not reimburse us, in whole or in part, for any of these impacts.

***Our business has inherently dangerous workplaces. If we fail to maintain safe work sites, we may experience workforce injuries or loss of life, and be exposed to financial losses, including penalties and other liabilities.***

Safety is a core value and a strategy at American Water. Our safety performance and continual progress to our ultimate desired goal of zero injuries is critical to our reputation. We maintain health and safety standards to protect our employees, customers, contractors, vendors and the public. Although we intend to adhere to such health and safety standards with a goal of achieving zero injuries, it is extremely challenging to eliminate all safety incidents at all times.

At our business sites, including construction and maintenance sites, our employees, contractors and others are often in close proximity to large pieces of equipment, moving vehicles, pressurized water, underground trenches and vaults, chemicals and other regulated materials. On many sites, we are responsible for safety and, accordingly, must implement important safety procedures and practices above what governmental regulations require. As an essential business that must continue to provide water and wastewater services during the current COVID-19 pandemic, we are keenly focused on the care and safety of our employees, contractors, vendors and others who work at or visit our worksites. In this regard, for example, we have instituted work-from-home guidelines for all employees who can work remotely, closed all customer payment locations, implemented social distancing for work-related activities at a worksite, and encouraged the practice of frequent hand-washing. If the procedures we implement are ineffective or are not followed by our employees or others, or we fail to implement procedures, our employees, contractors and others may experience illness, or minor, serious or fatal injuries. Unsafe work sites have the potential to increase employee turnover, expose us to litigation and raise our operating costs. Any of the foregoing could result in financial losses, which could have a material adverse impact on our business, financial condition, results of operations and cash flows.

In addition, our operations can involve the delivery, handling and storage of hazardous chemicals, which, if improperly delivered, handled, stored or disposed of, could result in serious injury, death, environmental damage or property damage, and could subject us to penalties or other liabilities. We are also subject to regulations dealing with occupational health and safety. Although we maintain functional employee groups whose primary purpose is to ensure we implement effective health and, safety work procedures and practices throughout our organization, including construction sites and maintenance sites, the failure to comply with such regulations or procedures could subject us to liability.

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

As of June 30, 2020, our aggregate long-term and short-term debt balance (including preferred stock with mandatory redemption requirements) was \$10.6 billion, and our working capital (defined as current assets less current liabilities) was in a deficit position. Our indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital requirements or capital expenditures;
- exposing us to interest rate risk with respect to the portion of our indebtedness that bears interest at variable rates;
- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations;
- impairing our access to the capital markets for debt and equity;
- requiring that an increasing portion of our cash flows from operations be dedicated to the payment of the principal and interest on our debt, thereby reducing funds available for future operations, dividends on our common stock or capital expenditures;
- limiting our ability to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- placing us at a competitive disadvantage compared to those of our competitors that have less debt.

In order to meet our capital expenditure needs, we may be required to borrow additional funds under the revolving credit facility or issue a combination of new short-term and long-term debt, and/or equity. We continue to assess our short- and long-term liquidity needs in light of the impact of the COVID-19 pandemic on the financial and capital markets, especially with respect to the market for corporate commercial paper, which has experienced recent volatility and shortages of liquidity. In response to these events, on March 20, 2020, we entered into the \$750 million 364-day Term Loan Facility and immediately executed a \$500 million draw thereunder to support our short-term liquidity by retaining that amount in cash. The Term Loan Facility allowed for a single additional borrowing of up to \$250 million, which expired unused on June 19, 2020. We have also utilized our existing sources of liquidity, such as our current cash balances, cash flows from operations and borrowings under the revolving credit facility as necessary or desirable to meet our short-term liquidity requirements. We believe that existing sources of liquidity will be sufficient to meet our cash requirements for the foreseeable future. However, as the impacts of the COVID-19 pandemic on the economy, the financial and capital markets and our operations evolve, we will continue to assess our liquidity needs. In the event of a sustained market deterioration, we may need to obtain additional sources of liquidity, which would require us to evaluate available alternatives and take appropriate actions.

Moreover, additional borrowings may be required to refinance outstanding indebtedness. Other than debt with respect to the Term Loan Facility, debt maturities and sinking fund payments in 2021, 2022 and 2023 will be \$314 million, \$14 million and \$270 million, respectively. We can provide no assurance that we will be able to access the debt or equity capital markets on favorable terms, if at all. Moreover, as new debt is added to our current debt levels, the related risks we now face could intensify, limiting our ability to refinance existing debt on favorable terms.

In an attempt to manage our exposure to interest rate risk associated with our issuance of variable and fixed rate debt, we have in the past (including during the first quarter of 2020) entered into, and in the future may enter into, financial derivative instruments, including without limitation, interest rate swaps, forward starting swaps, swaptions and U.S. Treasury lock agreements. However, these efforts may not be effective to fully mitigate interest rate risk, and may expose us to other risks and uncertainties, including quarterly “mark to market” valuation risk associated with these instruments, that could negatively and materially affect our financial condition, results of operations and cash flows.

Our ability to pay our expenses and satisfy our debt service obligations depends in significant part on our future performance, which will be affected by the financial, business, economic, competitive, legislative (including tax initiatives and reforms, and other similar legislation or regulation), regulatory and other risk factors described in this section, many of which are beyond our control. If we do not have sufficient cash flows to pay the principal and interest on our outstanding debt, we may be required to refinance all or part of our existing debt, reduce capital investments, sell assets, borrow additional funds or sell additional equity. In addition, if our business does not generate sufficient cash flows from operations, or if we are unable to incur indebtedness sufficient to enable us to fund our liquidity needs, we may be unable to plan for or respond to changes in our business, which could cause our financial condition, operating results and prospects to be affected materially and adversely.

***Our inability to access the capital or financial markets or other events could affect our ability to meet our liquidity needs at reasonable cost and our ability to meet long-term commitments, which could adversely affect our financial condition and results of operations.***

In addition to cash from operations, we generally rely primarily on AWCC's \$2.25 billion revolving credit facility, its \$2.1 billion commercial paper program, and the capital markets to satisfy our liquidity needs. On April 1, 2020, the termination date of the credit agreement with respect to AWCC's revolving credit facility was extended pursuant to the terms of the credit agreement from March 21, 2024 to March 21, 2025. Historically, we have regularly used AWCC's commercial paper program rather than this revolving credit facility as a principal source of short-term borrowing due to the generally more attractive rates we generally could obtain in the commercial paper market. In addition, on March 20, 2020, AWCC entered into the \$750 million 364-day Term Loan Facility to provide additional short-term liquidity support. As of June 30, 2020, AWCC had no outstanding borrowings under the revolving credit facility, \$420 million of commercial paper outstanding, \$76 million in outstanding letters of credit and \$500 million outstanding under the 364-day Term Loan Facility. There can be no assurance that AWCC will be able to continue to access its commercial paper program or its revolving credit facility, when, as and if desired, or that the amount of capital available thereunder will be sufficient to meet all of our liquidity needs at a reasonable, or any, cost.

Under the terms of the revolving credit facility and the 364-day Term Loan Facility, our consolidated debt cannot exceed 70% of our consolidated capitalization, as determined under the terms of those facilities. If our equity were to decline or debt were to increase to a level that causes us to exceed this limit, lenders under those facilities would be entitled to refuse any further extension of credit under the revolving credit facility and to declare all of the outstanding debt under the revolving credit facility and/or the Term Loan Facility immediately due and payable. To avoid such a default, a waiver or renegotiation of this covenant would be required, which would likely increase funding costs and could result in additional covenants that would restrict our operational and financing flexibility.

Our ability to comply with this and other covenants contained in the revolving credit facility, the Term Loan Facility and our other consolidated indebtedness is subject to various risks and uncertainties, including events beyond our control. For example, events that could cause a reduction in equity include, without limitation, a significant write-down of our goodwill. Even if we are able to comply with this or other covenants, the limitations on our operational and financial flexibility could harm our business by, among other things, limiting our ability to incur indebtedness or reduce equity in connection with financings or other corporate opportunities that we may believe would be in our best interests or the interests of our shareholders to complete.

Disruptions in the capital markets or changes in our credit ratings could also limit our ability to access capital on terms favorable to us or at all. For example, on April 1, 2019, Moody's Investors Service changed the Company's senior unsecured debt rating to Baa1, from A3, with a stable outlook. While the lending banks that participate in the revolving credit facility have met all of their obligations under those facilities, disruptions in the credit markets, changes in our credit ratings, or deterioration of the banking industry's financial condition could discourage or prevent lenders from meeting their existing lending commitments, extending the terms of such commitments, or agreeing to new commitments. These or other occurrences may cause our lenders to not meet their existing commitments, and we may not be able to access the commercial paper or loan or capital markets in the future on terms acceptable to us or at all. Furthermore, our inability to maintain, renew or replace commitments under our revolving credit facility could materially increase our cost of capital and adversely affect our financial condition, results of operations and liquidity. Longer-term disruptions in the capital and credit markets as a result of economic, legislative, political or other uncertainty, including as a result of the current COVID-19 pandemic, changes in U.S. tax and other laws, reduced financing alternatives, or failures of significant financial institutions could adversely affect our access to the liquidity needed for our business. Any significant disruption in the capital, debt or credit markets, or financial institution failures could require us to take measures to conserve cash until the market stabilizes or until alternative financing can be arranged. Such measures could include delaying or deferring capital expenditures, reducing or suspending dividend payments, and reducing other discretionary expenditures. Finally, there is no assurance that we will be able to access the equity capital markets to obtain financing when necessary or desirable and on terms that are reasonable or acceptable to us.

Any of the foregoing events that impede our access to the capital markets, or the failure of any of our lenders to meet their commitments that result from financial market disruptions, could expose us to increased interest expense, require us to institute cash conservation measures or otherwise adversely and materially affect our business, financial condition, results of operations, cash flows and liquidity.

***Market volatility and other conditions may impact the value of benefit plan assets and liabilities, as well as assumptions related to the benefit plans, which may require us to provide significant additional funding.***

The performance of the capital markets affects the values of the assets that are held in trust to satisfy significant future obligations under our pension and postretirement benefit plans. The value of these assets is subject to market fluctuations and volatility, which may cause investment returns to fall below our projected return rates. Recently, in connection with the COVID-19 pandemic, the stock market generally has experienced significant day-to-day fluctuations in market prices. We are currently unable to predict the effect, if any, of the COVID-19 pandemic on the valuation of our pension assets and liabilities. A decline in the market value of our pension and postretirement benefit plan assets as of the measurement date can increase the funding requirements under our pension and postretirement benefit plans. Additionally, our pension and postretirement benefit plan liabilities are sensitive to changes in interest rates. In connection with the COVID-19 pandemic, interest rates have experienced volatility and are subject to potential further adjustments based on the actions of the U.S. Federal Reserve, and others. If interest rates are lower at the measurement date, our liabilities would increase, potentially increasing benefit expense and funding requirements. Further, changes in demographics, such as increases in life expectancy assumptions and increasing trends in health care costs may also increase our funding requirements. Future increases in pension and other postretirement costs as a result of reduced plan assets may not be fully recoverable in rates, in which case our results of operations and financial position could be negatively affected.

In addition, market factors can affect assumptions we use in determining funding requirements with respect to our pension and postretirement plans. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could be materially increased, which could adversely affect our financial position, results of operations and cash flows.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In February 2015, the Board of Directors authorized an anti-dilutive stock repurchase program to mitigate the dilutive effect of shares issued through the Company's dividend reinvestment, employee stock purchase and executive compensation activities. The program allows the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time in the open market or through privately negotiated transactions. The program is conducted in accordance with Rule 10b-18 of the Exchange Act, and, to facilitate these repurchases, the Company enters into Rule 10b5-1 stock repurchase plans with a third-party broker, which allow the Company to repurchase shares of its common stock at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the program or the stock repurchase parameters at its discretion to manage dilution.

The Company did not repurchase shares of common stock during the three months ended June 30, 2020. From April 1, 2015, the date repurchases under the anti-dilutive stock repurchase program commenced, through June 30, 2020, the Company repurchased an aggregate of 4,860,000 shares of common stock under the program, leaving an aggregate of 5,140,000 shares available for repurchase under this program.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	<a href="#">Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).</a>
3.2	<a href="#">Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, File No. 001-34028, filed August 5, 2015).</a>
4.1	<a href="#">Indenture, dated as of December 4, 2009, between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed December 3, 2010).</a>
4.2	<a href="#">Officers' Certificate of American Water Capital Corp., dated April 14, 2020, establishing the terms and authorizing the issuance of the 2.80% Senior Notes due 2030 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed April 14, 2020).</a>
4.3	<a href="#">Officers' Certificate of American Water Capital Corp., dated April 14, 2020, establishing the terms and authorizing the issuance of the 3.45% Senior Notes due 2050 (incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed April 14, 2020).</a>
10.1.1	<a href="#">Second Amended and Restated Credit Agreement, dated as of March 21, 2018, by and among American Water Works Company, Inc., American Water Capital Corp., each of the Lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, JPMorgan Chase Bank, N.A., as syndication agent, and Mizuho Bank, Ltd., PNC Bank, National Association, and U.S. Bank National Association, as co-documentation agents (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed on March 21, 2018).</a>
10.1.2	<a href="#">Extension Agreement, dated as of April 9, 2019, among American Water Works Company, Inc., American Water Capital Corp., each of the Lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.17.2 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed on May 1, 2019).</a>
10.1.3	<a href="#">Extension Agreement, dated as of April 1, 2020, among American Water Works Company, Inc., American Water Capital Corp., each of the Lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1.3 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed on May 5, 2020).</a>
*10.2	<a href="#">Offer Letter for Employment, dated April 28, 2020, between American Water Works Company, Inc. and William Varley.</a>
*10.3	<a href="#">Separation Agreement and General Release, dated as of May 13, 2020, between American Water Works Company, Inc. and Loyd A. Warnock.</a>
*10.4	<a href="#">American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2020 Restricted Stock Unit Grant, dated April 1, 2020 (for Walter J. Lynch).</a>
*10.5	<a href="#">American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2020 Performance Stock Unit Grant Form A, dated April 1, 2020 (for Walter J. Lynch).</a>
*10.6	<a href="#">American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2020 Performance Stock Unit Grant Form B, dated April 1, 2020 (for Walter J. Lynch).</a>
*10.7	<a href="#">American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2020 Stock Unit Grant Form for Non-Employee Directors.</a>
*31.1	<a href="#">Certification of Walter J. Lynch, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.</a>
*31.2	<a href="#">Certification of M. Susan Hardwick, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.</a>
**32.1	<a href="#">Certification of Walter J. Lynch, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.</a>
**32.2	<a href="#">Certification of M. Susan Hardwick, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.</a>

<b>Exhibit Number</b>	<b>Exhibit Description</b>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

\* Filed herewith.

\*\* Furnished herewith.



April 28, 2020

William Varley  
175 E Delaware Pl  
Apt 6611  
Chicago, IL 60611-7732

Dear Bill:

On behalf of American Water, I am pleased to offer you the full-time position of Chief Growth Officer located at One Water St. Camden, NJ effective **June 1, 2020**. This position will report to Walter Lynch, Chief Executive Officer and President. We anticipate that you will find this new role to be personally rewarding and one in which you can make significant contributions to the Company. ***This position is an executive Section 16 Officer position. The terms of this offer letter are subject to the approval of the Executive Development & Compensation Committee, and your officer appointment is subject to approval of the American Water Board of Directors.***

In joining American Water, you will be part of the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. With a history dating back to 1886, and with its headquarters in Camden, New Jersey, the Company employs over 6,800 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to more than 14 million people in 45 states.

Safety, trust, teamwork, high performance, and environmental leadership define our culture – a culture where every employee feels valued and lives up to his or her potential. We believe that our success is based upon our employees having a vested interest in our business. As a part of our team, you will be tasked with helping make a great company even better – in doing so, you will be rewarded for your contributions. The following is our offer to you:

**Base Salary:** You will receive a bi-weekly base salary of \$15,384.62 which when annualized, would be approximately \$400,000 subject to applicable withholdings. The salary grade for your position will be 80. Your job performance will be reviewed annually as part of our performance management process and you may be eligible for a merit increase in 2021.

**APP:** You are eligible to participate in American Water's Annual Performance Plan (APP) with a target award amount equal to 50% of your annual base salary. For 2020, you will be eligible for a pro-rated APP payout based on your date of hire. Award payments from the APP are based on several factors including the level of achievement, if at all, of pre-existing company performance goals and of individual performance objectives, as determined by the Executive Development and Compensation Committee, and payments may be higher or lower than target.

April 28, 2020  
William Varley  
Page 2

**LTPP:** You are eligible to participate in American Water's Long Term Performance Plan (LTPP) with a target opportunity equal to 100% of your base salary as of the grant date, which will be in February 2021. For reference purposes, pursuant to the LTPP, equity awards are currently granted in the following forms: 30% in restricted stock units, 35% in performance stock units based on relative total shareholder return (TSR) ranking and 35% percent in performance stock units based on compounded adjusted EPS growth. All LTPP awards are subject to approval by the Executive Development and Compensation Committee and are granted under the terms and conditions of the Company's 2017 Omnibus Equity Compensation Plan (the Plan), the LTPP program then in effect, and a grant document. In the event of any conflict between the terms of your offer letter and the terms of the Plan, the LTPP program then in effect and the grant document, the terms of those other documents will govern.

**Benefits:** American Water offers a competitive benefits program for you and your eligible dependents. An outline of our benefits is attached for your review. Our benefit plans include medical, prescription drug, dental, vision, flexible spending accounts (Health and Dependent Care), employer paid life/disability insurance, voluntary life insurance, Healthy Solutions incentive based wellness program, employee assistance program and educational assistance. Your retiree health & welfare benefits will terminate effective with your rehire, and you will move to the active health & welfare benefits. When you retire again, you will move back to the retiree coverage.

You will be eligible to participate in the 401(k) Savings Plan and Defined Contribution plans effective the date of hire. Approximately one week after your hire date, you will receive a letter from Prudential advising that you will be automatically enrolled into the plan at a 3% contribution level. If you do not enroll on your own, the automatic enrollment will take place 30 days from the date of the letter. You can stop or change your contribution percentage at any time.

**Non-Qualified Deferred Compensation:** You will also be eligible to participate in our Non-Qualified Deferred Compensation Plan beginning in 2021, based on annual enrollment in December. The Company may make Employer Matching and Defined Contribution Account contributions as soon as administratively practicable after the end of the applicable plan year. Under the Non-Qualified Deferred Compensation Plan, Employer Matching contributions are immediately vested; Defined Contribution Account contributions will generally vest after five years of service.

**Additional Considerations:** You are eligible for a one time cash sign-on bonus valued at \$120,000, subject to applicable withholdings, which will be paid to you within 30 days of your start date.

**Relocation:** You will be eligible for relocation benefits under American Water's relocation policy according to the parameters of our policy and eligibility criteria as set forth by the IRS. You will be required to sign a Relocation Services Payback Agreement stating that if an employee resigns within 24 months of the date of his/her relocation, the employee is required to reimburse the relocation expenses to the Company on a pro-rated basis. You have elected to receive in cash the lump sum value of the relocation plan in lieu of the services, which has a value of \$120,000. That payment will be made to you within 30 days of your start date, and is subject to all applicable withholdings and the foregoing reimbursement agreement.

**Holidays/Vacation:** You will be eligible for 20 days of paid vacation, 6 floating holidays and 8 fixed holidays per calendar year. Your time will be pro-rated for 2020.

**Sick Days:** You are eligible for 10 sick days annually. For the balance of 2020, you will be eligible for 6 sick days.



April 28, 2020  
William Varley  
Page 3

**Executive Severance Policy**

You will be an eligible participant under the executive severance policy which provides severance benefits to executives whose employment is involuntarily terminated by American Water for reasons other than cause. A copy of the Executive Severance policy has been provided with this offer.

**This offer is contingent upon the successful completion and results of both a background check and a drug screen as well as approvals by the Executive Compensation and Development Committee and the American Water Board of Directors.** You will be receiving an email from our vendor, CareerBuilder, on behalf of American Water Careers, asking you to complete information for the background check and drug screen. Please complete this information as quickly as possible, and report for your drug screening within 48 hours.

Additionally, as part of our new hire process, you will be asked to complete a Form I-9 in compliance with the Immigration Reform and Control Act after the offer acceptance or no later than the first date of hire. Please refer to this link [Click Here](#) and follow the instructions. If you experience technical difficulty with this link, please contact your Recruiter.

Your signature below indicates your acceptance of our offer and the terms of employment with American Water. Please review all attachments and sign and return the Confidentiality and Intellectual Property Agreements with your offer letter.

It's my pleasure to welcome you to American Water where I know you will be a great asset to the Company!

Sincerely,

/s/ Walter Lynch

Walter Lynch  
President and CEO  
American Water

cc: Melanie M. Kennedy  
SVP, Human Resources

*I, William Varley, understand that my employment with American Water is "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.*

/s/ William Varley

April 29, 2020

Signature

Date

**WE KEEP LIFE FLOWING™**



**SEPARATION AGREEMENT AND GENERAL RELEASE**

This Separation Agreement and General Release (“Agreement”) dated May 13, 2020 is between American Water Works Service Company, Inc. (“American Water” or the “Company”) and Loyd Warnock (“Executive”).

**WHEREAS**, Executive is a full-time executive employee of American Water;

**WHEREAS**, Executive and American Water have agreed to resolve all claims and potential claims which have been, or could have been, brought by Executive against American Water arising out of Executive’s employment with American Water to date;

**WHEREAS**, Executive and American Water desire to enter into this Agreement to document the terms of the separation of Executive’s employment with American Water, with the parties agreeing that neither party admits wrongdoing, fault, or liability whatsoever, and that nothing herein shall be construed or interpreted as an admission of any wrongdoing, fault or liability of either party; and

**NOW THEREFORE**, in consideration of the mutual promises and releases contained herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Term of Employment.** Executive’s employment with American Water will end on January 2, 2021 (“Separation Date”). As used herein, the period beginning on June 1, 2020 and ending on (but not including) the Separation Date shall be known as the “Employment Term.”
  2. **Separation Benefits.**
    - a. **Continued Employment.** In return for the execution and non-revocation of the Agreement and the full performance by Executive of Executive’s obligations described in this Agreement, American Water agrees to provide Executive with continued employment during the Employment Term, to include (i) payment of his current annual base salary, less applicable withholdings and deductions and in accordance with the Company’s customary payroll practice, until the Separation Date and (ii) continuation of coverage under American Water’s group health insurance plan through January 31, 2021 (“Continued Employment”). However, American Water retains the right to terminate this Agreement and Executive’s employment for cause prior to the Separation Date. For purposes of this Agreement, “for cause” is defined as (i) breach of any of Executive’s covenants contained in Section 4 or 5 of this Agreement; (ii) persistent refusal or willful failure to perform substantially his duties and responsibilities to the Company, which continues after Executive receives notice of such refusal or failure and is afforded a period of not less than 30 days to remedy the refusal or failure; (iii) has engaged in conduct that constitutes disloyalty to the Company or that materially damages the property, business or reputation of the Company; (iv) has engaged in fraud, embezzlement, theft, or material misappropriation with respect the business
-

## **Separation Agreement and General Release Between American Water And Loyd Warnock**

or assets of the Company, or an act that constitutes the commission of a felony; (v) has disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information; (vi) has violated the Company's Code of Ethics; or (vii) has engaged in such other behavior that is significantly detrimental to the interests of the Company, as determined by the Company's Chief Executive Officer.

- b. **APP-Like Payment.** Unless this Agreement is terminated prior to the Separation Date, and in return for the execution (on or within 7 days after the Separation Date) and non-revocation of **Attachment A** and the full performance by Executive of his obligations described in this Agreement and **Attachment A**, Executive will be eligible to receive, subject to the conditions contained herein, an additional cash payment from the Company that would be calculated in a manner substantially similar to previous payouts made to Executive by American Water under the American Water Works Company, Inc. Annual Performance Plan ("APP" and such payment, an "APP-Like Payment"). American Water will calculate this APP-Like Payment using Executive's 2020 APP target – 65% of his annual base salary as of the date of this Agreement – and American Water's weighted multiplier for 2020, as determined by the Company and approved by the Executive Development and Compensation Committee of the Board of Directors of American Water Works Company, Inc. ("Parent Company"). This APP-Like Payment is contingent upon the Company making APP payments to its eligible employees pursuant to the APP with respect to the 2020 APP Plan Year. The APP-Like Payment will be less applicable withholdings and deductions, and, subject to Executive's compliance with Section 3 hereof, will be paid within thirty (30) days after the Company makes payments under the APP to other eligible employees.
3. **Conditions of Receipt and Timing of Separation Benefits.** Executive shall not be entitled to receive the Continued Employment unless and until (i) Executive signs this Agreement; and (ii) the seven (7)-day Revocation Period referenced in Section 10(f) below expires without Executive having exercised his right of revocation.

Executive shall not be entitled to the APP-Like Payment unless and until Executive (i) returns all Company property in accordance with Section 4(d) below; (ii) signs **Attachment A** on the Separation Date or within seven (7) days thereafter; and (iii) the seven (7) day Revocation period referenced therein expires without Executive having revoked **Attachment A**.

4. **Confidentiality; Non-Disclosure; Return of Property, Disparaging Statements, References and Unemployment Compensation.**

- a. **Confidentiality.** Executive understands and agrees that the terms and contents of this Agreement shall remain confidential and shall not be disclosed by Executive or Executive's agents and representatives, with the exception of: (1) disclosure to members of Executive's immediate family, Executive's attorneys, accountants, tax or financial advisors, each of who shall be informed of this confidentiality obligation and shall agree to be bound by its terms; (2) disclosure to the Internal

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

Revenue Service or state or local taxing authority; (3) disclosure as is expressly required or protected by law; (4) disclosure by American Water or Parent Company through a press release or in a filing with the Securities and Exchange Commission, or to a national stock exchange; (5) any disclosures made by the Executive to pursuant to the whistleblower provisions in the Exchange Act (15 U.S.C. § 78u-6) and the Sarbanes Oxley Act of 2002 (18 U.S.C. § 1514A); or (6) in any action to challenge or enforce the terms of this Agreement provided that such disclosure is covered by an appropriate confidentiality order to the maximum extent permitted by the applicable authority. Nothing contained in this Agreement shall preclude Executive from initiating and/or cooperating fully with any governmental investigation.

- b. Non-Disclosure of Confidential Information and Trade Secrets. Executive acknowledges that as an employee of American Water, Executive had access to and was entrusted with the Company's confidential and proprietary business information and trade secrets defined in Section 5(b)(i). At all times prior to, during, and following Executive's separation from employment with American Water, Executive represents that he has maintained and agrees that Executive will continue to maintain such information in strict confidence and has not disclosed, used, transferred or sold and will not disclose, use, transfer or sell (directly or indirectly) such information to any third party (except as may be required by law or legal process) so long as such information or proprietary data remains confidential and has not been properly and lawfully disclosed or is not otherwise in the public domain. Executive further agrees that, at the Company's request, Executive will deliver and/or provide access to any personal computing device, telephone, hard disk, backup tapes, cloud systems, disks or thumb or flash drives for the Company's review and permit the Company to delete all confidential and proprietary business information and trade secrets contained on such devices.
- i. Definition of "Confidential and Proprietary Business Information and Trade Secrets. For purposes of this Agreement, "confidential and proprietary business information and trade secrets" includes, but is not limited to, all information about markets, key personnel, operational methods, proprietary intellectual property, real property, plans for future developments, projects in the pipeline, bid information, manuals, books, training materials, forms and procedures, policies, customer or prospective customer lists, customer related data, marketing plans and strategies, financial information, documents relating to any of the foregoing, and other written and oral materials (whether computerized or on hard copy) which are related to the business of the Company and the confidentiality of which the Company attempts to maintain with reasonable efforts and which the Company has not released to the general public.
- c. Notice of Immunity for Confidential Disclosure of a Trade Secret to an Attorney, the Government or in a Court Filing. Federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

- Where the disclosure is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or
- Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. 18 U.S.C. § 1833(b)(1).

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order. 18 U.S.C. § 1833(b)(2).

- d. Return of Property. Executive shall, on or prior to the Separation Date, return to American Water (and shall not retain any copies of) any and all property of the Company in Executive's possession, including (without limitation) all papers, documents, business plans, project or pipeline information, correspondence, office access badge, Company-issued cell phone, garage ID hang-tag, keys, credit cards, electronic or digitally stored information, and computer equipment.
- e. Disparaging Statements. Executive agrees not to make written (to include online or other written statements) or oral statements about American Water or its affiliates or Releasees (as defined in Section 6(a) below) that are negative or disparaging. Nothing in this Agreement shall preclude Executive from communicating or testifying truthfully (i) to the extent required or protected by law, (ii) to any federal, state, or local governmental agency, (iii) in response to a subpoena to testify issued by a court of competent jurisdiction, or (iv) in any action to challenge or enforce the terms of this Agreement. Executive understands that this is a material provision of this Agreement.
- f. Unemployment Compensation. American Water agrees not to oppose Executive's application for unemployment compensation benefits, if any. American Water shall, however, respond as necessary to any inquiries from any governmental agencies with respect to Executive's unemployment compensation claim.
- g. References. Executive agrees that all requests for references from prospective employers will be directed solely to the attention of Melanie Kennedy, Senior Vice President, Human Resources, American Water Works Service Company, Inc., 1 Water Street, Camden, NJ 08102, Melanie.Kennedy@amwater.com.

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

Upon any request for a reference, Ms. Kennedy will solely confirm Executive's dates of employment with American Water, positions Executive held with American Water, and Executive's last salary earned with American Water.

- h. Taxes. As required by law, the Company will issue the appropriate IRS Form(s) at the appropriate time. Any payments provided for herein shall be reduced by any amounts required to be withheld by the Company from time to time under applicable federal, state or local income or employment tax laws or similar statutes or other provisions of law then in effect. Executive agrees that (i) Executive shall be solely responsible for all taxes, including, but not limited to, income and excise taxes, imposed on Executive in respect of amounts paid to Executive by the Company under this Agreement; (ii) Executive shall not seek reimbursement from the Company for such taxes; and (iii) Executive agrees to and does hereby indemnify and hold the Company harmless against any and all tax liability, interest, and/or penalties.

5. **Non-Solicitation**.

- a. Executive agrees that for a period of twelve (12) months following the Separation Date, Executive will not either alone or in association with others call on, solicit, or permit any organization directly or indirectly controlled by Executive or which may employ Executive to call on or solicit, in any manner, any client of the Company. "Client" shall mean any corporation, partnership, association, United States military base, or United States (to include federal, state, county or local government) or foreign governmental entity that has or had an account or contract with the Company or any of its subsidiaries or parent during Executive's employment or on the Separation Date regardless of whether Executive has directly worked with such client.
- b. Executive further agrees that for a period of twelve (12) months following the Separation Date, Executive will not directly or indirectly, either alone or in association with others solicit, or permit any organization directly or indirectly controlled by Executive or which may employ Executive to solicit, any employee or executive of the Company to leave the employ of the Company, or solicit for employment, hire or engage as an independent contractor, or permit any organization directly or indirectly controlled by Executive or which may employ Executive to solicit for employment, hire or engage as an independent contractor, any person who was employed by the Company at the time of the termination or cessation of Executive's employment with the Company; provided that this clause shall not apply to the solicitation, hiring or engagement of any individual whose employment with the Company has been terminated for a period of six (6) months or longer at the time of such solicitation, hiring or employment
- c. Extension of Restrictions. If Executive violates the provisions of this Section 5, the twelve (12) month period referred to herein shall recommence and Executive shall continue to be bound by the restrictions set forth in Section 5 until a period of twelve (12) months has expired without any violation of such provisions.

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

- d. Interpretation. If any restriction set forth in Section 5 is found by any court of competent jurisdiction to be overbroad, such restriction shall be enforceable to the maximum extent permissible by law.
- e. Equitable Remedies. The restrictions contained in this Section 5 are necessary for the protection of the business and good will of the Company and are considered by Executive to be reasonable for such purpose. Executive agrees that any breach of this Section 5 is likely to cause the Company substantial and irrevocable damage which is difficult to measure. Therefore, in the event of any such breach or threatened breach, Executive agrees that the Company shall be entitled to preliminary and permanent injunctive relief, without the necessity of a bond or other security and without proving actual damages, as well as to an equitable accounting of all earnings, profits and other benefits arising from any violations of this Agreement, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled, including but not limited to liquidated and punitive damages. Executive further agrees that the Company shall be entitled to its reasonable fees and costs if a court of competent jurisdiction issues a preliminary or permanent injunction against the Executive or a court of competent jurisdiction finds that Executive breached the terms of the Agreement.

**6. General Release of Legal Claims.**

- a. Executive, on behalf of Executive, and his heirs, executors, administrators, and/or assigns, does hereby releases and forever discharges American Water, together with its parents, subsidiaries, affiliates, predecessors, and successor corporations and business entities, past, present and future, and its and their agents, directors, officers, partners, employees, shareholders, insurers and reinsurers, and employee benefit plans (and the trustees, administrators, fiduciaries, insurers, and reinsurers of such plans) past, present and future, and their heirs, executors, administrators, predecessors, successors, and assigns (collectively, "Releasees"), of and from any and all legally waivable claims, causes of actions, suits, lawsuits, debts, and demands whatsoever in law or in equity, known or unknown, suspected or unsuspected, which Executive ever had, now has or which Executive's executors administrators, or assigns hereafter may have from the beginning of time to the date Executive executes this Agreement, and including, without limitation, any claims arising from or relating to Executive's employment relationship with American Water, and the termination of such relationship, including, without limitation, any claims arising under Title VII of the Civil Rights Act of 1964 ("Title VII"), the Americans with Disabilities Act ("ADA"), the Employee Retirement Income Security Act ("ERISA"), the Family and Medical Leave Act ("FMLA"), the Age Discrimination in Employment Act of 1967 ("ADEA"), the Older Workers Benefit Protection Act ("OWBPA"), the New Jersey Law Against Discrimination ("NJLAD"), the Conscientious Employee Protection Act ("CEPA"), the New Jersey Family Leave Act, the New Jersey Millville Dallas Airmotive Plant Job Loss Notification Act, the New Jersey Equal Pay Act, the New Jersey Wage and Hour Law, the New Jersey Wage Payment Act, the New Jersey Constitution, the common law of the State of New Jersey, the Tennessee Anti-Discrimination Act, the

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

Tennessee Human Rights Act, the Tennessee Disability Act, the Tennessee Equal Pay Act, the Tennessee Maternity Leave law, the Tennessee Breastfeeding Rights law, the Tennessee Handicap Discrimination law, the Tennessee Reference Immunity law, the Tennessee Smoker's Rights law, the Tennessee Constitution, the common law of the State of Tennessee, and any and all other federal, state, or local constitutional, statutory, regulatory, or common law causes of action now or hereafter recognized, and any claims for attorneys' fees and costs. Nothing in this Agreement shall waive rights or claims that arise after the date that Executive executes this Agreement.

- b. Notwithstanding the broad scope of Section 6(a), this Agreement is not intended to bar any claims that, as a matter of applicable law, whether by statute or otherwise, cannot be waived, such as claims for workers' compensation benefits, unemployment insurance benefits, and any claims that arise after the date that the Executive executes this Agreement. Nothing in this Agreement is intended to interfere with, prevent or prohibit Executive from filing a claim with a federal, state or local government agency that is responsible for enforcing a law on behalf of the government, such as the Equal Employment Opportunity Commission ("EEOC") (including a challenge to the validity of this Agreement), Department of Labor ("DOL"), Securities and Exchange Commission ("SEC") or National Labor Relations Board ("NLRB"). Nor should anything in this Agreement be read to deter or prevent Executive from cooperating with or providing information to such a governmental agency during the course of its investigation or during litigation. However, Executive understands and agrees that, that except for claims brought pursuant to the SEC's Whistleblower Program (15 U.S.C. § 78u-6 and 18 U.S.C. § 1514A), Executive may not recover any monetary benefit or individualized relief as a result of any such claim brought on Executive's behalf.
7. **Cooperation.** Executive agrees that Executive shall cooperate with the Company in the prosecution or defense of any claim currently pending or hereinafter pursued by or against the Company without the payment of any additional compensation other than as set forth in this Agreement. Upon receipt of appropriate supporting documentation, American Water shall reimburse Executive for all of Executive's approved and reasonable costs and expenses incurred in connection with such cooperation. In the case of legal proceedings involving American Water, to the extent permissible by law, Executive will notify, in writing, the individual then holding the office of General Counsel, American Water Works Service Company, Inc., 1 Water Street, Camden, NJ 08102-1658, of any subpoena or other similar notice to give testimony or provide documentation within two (2) business days of receipt of the same and prior to providing any response thereto. Nothing in this Agreement shall preclude Executive from participating in and fully cooperating with any governmental investigation.

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

8. **Business Expenses and Compensation**. Executive acknowledges and agrees that (i) should Executive execute this Agreement and **Attachment A**, the compensation and benefits set forth in Section 2 are in complete satisfaction of any and all compensation and benefits due to Executive from the Company, and that no further payments, compensation, benefits or other amounts are owed or will be paid to Executive by the Company, (ii) Executive has been reimbursed by American Water for all business expenses incurred in conjunction with the performance of Executive's employment and that no other reimbursements are owed to Executive, and (iii) Executive has not suffered any on-the-job injury for which Executive has not already filed a claim.
9. **Accrued Benefits**. Any accrued or owing, but not yet paid, vested benefits under the Company's 401(k) plan, pension plan, nonqualified deferred compensation plan, and post-employment retirement plan and any other plan in which Executive may have participated, will be paid to Executive at the times provided under such plans. Any restricted stock units and performance stock unit grants that were granted to Executive under the Company's Long Term Performance Plan ("LTPP") that are outstanding and vested as of the Separation Date will be subject to the terms and conditions of the respective grant agreements covering such grants to include the letter agreement between Executive and the Company dated July 25, 2019 (the "Offer Letter"). Executive understands and acknowledges that he shall not have any further rights with respect to equity grants under the LTPP, except for any rights that vested prior to the Separation Date. Executive shall receive no new LTPP grants from the Company.
10. **Acknowledgements**. Executive hereby certifies and acknowledges that:
- a. Executive has read the terms of this Agreement and that Executive understands its terms and effects, including the fact that Executive has agreed to **REMISE, RELEASE, AND FOREVER DISCHARGE** Releasees from all claims set forth in Section 6(a);
  - b. Executive is receiving consideration which is in addition to anything of value to which Executive otherwise would have been entitled had Executive not executed this Agreement;
  - c. Executive enters into this Agreement knowingly and voluntarily without any coercion on the part of any person or entity;
  - d. Executive was given adequate time to consider all implications and to freely and fully consult with and seek the advice of whomever Executive deemed appropriate;
  - e. Executive was advised in writing, by way of this Agreement, to consult an attorney before signing this Agreement;
  - f. Executive has been given twenty-one (21) calendar days within which to consider this Agreement before signing it ("Consideration Period") and, in the event that Executive signs this Agreement and returns it back to the Company in accordance with the Notice provision below during this Consideration Period, said signing

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

constitutes a knowing and voluntary waiver of this Consideration Period. Executive further understands that any non-material changes to this Agreement do not restart the Consideration Period;

- g. Executive shall have the right to revoke this Agreement within seven (7) calendar days after signing it (the "Revocation Period"). If the seventh day is a weekend or national holiday, Executive has until the next business day to revoke. If Executive elects to revoke this Agreement, Executive shall notify Melanie Kennedy, Senior Vice President, Human Resources, American Water Works Service Company, Inc., 1 Water Street, Camden, NJ 08102, Melanie.Kennedy@amwater.com in writing of Executive's revocation. Unless revoked within this period, this Agreement will become irrevocable on the eighth day after it is signed; and
- h. Executive does not waive rights or claims that may arise after the date this Agreement is executed.

**11. General Terms.**

- a. Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally to the recipient, two (2) business days after the date when sent to the recipient by reputable express courier service (charges prepaid) or four (4) business days after the date when mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to Executive and to the Company at the addresses set forth below:

If to Executive:

Loyd Warnock  
216 East Highlands Circle  
Lenoir City, TN 37772

If to Company:

Melanie Kennedy  
Senior Vice President, Human Resources  
American Water Works Service Company, Inc.  
1 Water Street  
Camden, NJ 08102

or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

- b. Entire Agreement. This Agreement constitutes and contains the entire agreement and understanding concerning Executive's employment and termination thereof, and the other subject matters addressed herein between the parties, and supersedes

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

and replaces all prior negotiations and all prior agreements proposed or otherwise, whether written or oral, concerning the subject matter hereof, except that the provisions contained in the Offer Letter with respect to Executive's 2018, 2019 and 2020 LTPP grants shall remain and continue to be in full force and effect.

- c. Modification. This Agreement can be modified only by a writing signed by both Executive and a duly authorized agent of the Company.
- d. Assignment. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the Company and Executive.
- e. Interpretation of Agreement. If any provision of this Agreement or application thereof to anyone under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction.
- f. Choice of Law and Forum. This Agreement shall be governed by the substantive law of the state of New Jersey without regard to its conflict of law rules. The Company and Executive consent to the exclusive jurisdiction of the courts of New Jersey to adjudicate any and all disputes arising between them and hereby waive any and all objections based on alleged lack of personal jurisdiction.

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

**The Company and Executive have carefully read and understand all of the provisions of this Agreement. They enter into this Agreement freely, knowingly, and voluntarily. In entering into this Agreement, neither the Company nor Executive is relying upon any representations or promises not expressly set forth in this Agreement. Intending to be legally bound to this Agreement, the Company's representative and Executive sign their names below.**

/s/ Melanie Kennedy

\_\_\_\_\_  
Melanie Kennedy

Senior Vice President, Human Resources

American Water Works Service Company, Inc.

Dated: May 26, 2020

/s/ Loyd Warnock

\_\_\_\_\_  
Loyd Warnock

Dated: May 20, 2020

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

**ATTACHMENT A**

In consideration of the promises made in the SEPARATION AGREEMENT AND GENERAL RELEASE entered into between American Water Service Company, Inc., (“American Water” or the “Company”) and Loyd Warnock (“Executive”), Executive does hereby REMISE, RELEASE AND FOREVER DISCHARGE the Company, together with its parents, subsidiaries, affiliates, predecessors, and successor corporations and business entities, past, present and future, and its and their agents, directors, officers, partners, employees, shareholders, insurers and reinsurers, and employee benefit plans (and the trustees, administrators, fiduciaries, insurers, and reinsurers of such plans) past, present and future, and their heirs, executors, administrators, predecessors, successors, and assigns (collectively, the “Releasees”), of and from any and all legally waivable claims, causes of actions, suits, lawsuits, debts, and demands whatsoever in law or in equity, known or unknown, suspected or unsuspected, which Executive ever had, now has or which Executive’s executors administrators, or assigns hereafter may have from the beginning of time to the date Executive executes this Agreement, and including, without limitation, any claims arising from or relating to Executive’s employment relationship with American Water, and the termination of such relationship, including, without limitation, any claims arising under Title VII of the Civil Rights Act of 1964 (“Title VII”), the Americans with Disabilities Act (“ADA”), the Employee Retirement Income Security Act (“ERISA”), the Family and Medical Leave Act (“FMLA”), the Age Discrimination in Employment Act of 1967 (“ADEA”), the Older Workers Benefit Protection Act (“OWBPA”), the New Jersey Law Against Discrimination (“NJLAD”), the Conscientious Employee Protection Act (“CEPA”), the New Jersey Family Leave Act, the New Jersey Millville Dallas Airmotive Plant Job Loss Notification Act, the New Jersey Equal Pay Act, the New Jersey Wage and Hour Law, the New Jersey Wage Payment Act, the New Jersey Constitution, the common law of the State of New Jersey, the Tennessee Anti-Discrimination Act, the Tennessee Human Rights Act, the Tennessee Disability Act, the Tennessee Equal Pay Act, the Tennessee Maternity Leave law, the Tennessee Breastfeeding Rights law, the Tennessee Handicap Discrimination law, the Tennessee Reference Immunity law, the Tennessee Smoker’s Rights law, the Tennessee Constitution, the common law of the State of Tennessee, and any and all other federal, state, or local constitutional, statutory, regulatory, or common law causes of action now or hereafter recognized, and any claims for attorneys’ fees and costs. Nothing in this Agreement shall waive rights or claims that arise after the date that Executive executes this Agreement.

This General Release also includes claims which the Executive may have for any type of damages cognizable under any of the laws referenced herein, including, but not limited to, any and all claims for compensatory damages, punitive damages, and attorneys’ fees and costs. Executive shall not bring a lawsuit against any of the Releasees for any of the claims described above. Should any entity, agency, commission, or person file a charge, action, complaint or lawsuit against the Releasees based upon any of the above-released claims, Executive agrees not to seek or accept any resulting relief whatsoever to the extent permitted by law. Executive also agrees that this General Release should be interpreted as broadly as possible to achieve Executive’s intention to waive all claims which Executive may have against the Releasees. Executive acknowledges that the benefits made available to Executive have been explained to Executive by the Company and are due consideration in exchange for release of claims listed above.

**Separation Agreement and General Release Between American Water  
And Loyd Warnock**

Notwithstanding anything to the contrary herein, nothing in this General Release shall impact or otherwise affect Executive's rights under, and to enforce, this General Release and the Agreement to which this General Release was attached.

Executive agrees that Executive had at least twenty-one (21) calendar days from the date that Executive received the Agreement to which this General Release was attached to consider this General Release, that Executive was advised to consult with Executive's own attorney prior to signing this General Release, and that Executive may revoke this General Release within a period of seven (7) days after signing it ("Revocation Period"). If Executive elects to revoke this **Attachment A**, Executive shall notify Melanie Kennedy, Senior Vice President, Human Resources, American Water Works Service Company, Inc., 1 Water Street, Camden, NJ 08102, Melanie.Kennedy@amwater.com, in writing of Executive's revocation. Unless revoked within this period, this General Release will become irrevocable on the eighth day after it is signed.

Executive acknowledges that the Agreement and **Attachment A** constitute and contain the entire agreement and understanding concerning Executive's employment and termination thereof, and the other subject matters addressed herein between the Parties, and supersedes and replaces all prior negotiations and all prior agreements proposed or otherwise, whether written or oral, concerning the subject matter hereof.

\_\_\_\_\_  
Melanie Kennedy  
Senior Vice President, Human Resources  
American Water Works Service Company, Inc.

\_\_\_\_\_  
Loyd Warnock

Dated: \_\_\_\_\_, 2021

Dated: \_\_\_\_\_, 2021

AMERICAN WATER WORKS COMPANY, INC.  
2017 OMNIBUS EQUITY COMPENSATION PLAN  
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of April 1, 2020 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to Walter J. Lynch (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has adopted a 2020 Long Term Performance Plan ("2020 LTTP") 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 three separate grants: a restricted stock unit and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2020 LTTP and to grant the Participant an Equity Award under the 2020 LTTP; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted pursuant to the 2020 LTTP to the Participant shall be issued under the Plan and the terms and conditions of such restricted 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 Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant 4,060 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 (c), (d), and (e) below, the Restricted Stock Units shall vest on the following dates (each a "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 applicable Service Date:

<u>Service Date</u>	<u>Units Vesting</u>
January 31, 2021	1/3
January 31, 2022	1/3
January 31, 2023	1/3

The vesting of the Restricted Stock Units is cumulative, but shall not exceed 100% of the Units subject to the Restricted Stock Units. If the foregoing schedule would produce fractional Units, the number of Units for which the Restricted Stock Units becomes vested on a Service Date shall be rounded down to the nearest whole Unit. The Restricted Stock Units shall become vested with respect to 100% of the Units subject to the Restricted Stock Units on January 31, 2023, if the Participant is employed by, or providing service to, the Employer on such date.

(b) Subject to subparagraphs (c), (d), and (e) below, if at any time prior to January 31, 2023, the Participant's employment or service with the Employer terminates for any reason, including death or disability, then all of the unvested Restricted Stock Units 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.

(c) If prior to January 31, 2023, the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall continue to become vested following the Participant's termination of employment or service on account of Normal Retirement in accordance with the schedule set forth in subparagraph 3(a). For purposes of this Grant, (i) "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause (as defined below)) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof and (ii) "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.

(d) If prior to January 31, 2023, the Participant's employment or service with the Employer terminates on account of Early Retirement (as defined below), then 75% of the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above

shall continue to become vested following the Participant's termination of employment or service on account of Early Retirement in accordance with the schedule set forth in subparagraph 3(a) and the remaining 25% of the portion of the Restricted Stock Units that have not vested as of the Participant's Early Retirement shall be immediately forfeited. For purposes of this Grant, "Early Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age fifty-five (55) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(e) If at any time prior to January 31, 2023, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Restricted Stock Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Restricted Stock Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in 3(c)), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of such termination of employment or service (the "Termination Date"). For purposes of this Grant, "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. For the avoidance of doubt, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Restricted Stock Unit shall not vest on the occurrence of the Change of Control.

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units that have become vested pursuant to Paragraph 3 shall be redeemed by the Company on the earliest of the (i) applicable Service Date, (ii) the Change of Control Date or (iii) the Termination Date, (the date of redemption is hereinafter referred to as the "Redemption Date"). As soon as administratively practicable following the applicable Redemption Date, but not later than forty-five (45) days following 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 distribution of such shares of Company

Stock, which shall be issued under the Plan. For purposes of clarity, if any Restricted Stock Units become vested pursuant to subparagraphs 3(c) or 3(d) above as a result of termination of employment or service with the Employer on account of Normal Retirement or Early Retirement, the Redemption Date for such vested Restricted Stock Units shall be the applicable Service Date or Change of Control Date to which such Restricted Stock Units would have been redeemed if the Participant had remained in the employment or service of the Employer (i.e., the Redemption Date continues to be the originally scheduled Service Date as provided in subparagraph 3(a) above or the Change of Control Date, if earlier, and is not accelerated to an earlier Service Date or to the date on which the termination of employment or service occurs).

5. Deferrals. 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, plus dividend equivalents earned on such Restricted Stock Units as described in Paragraph 6 below, to a later date, provided that, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) 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 (c) 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, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided 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 or the Termination Date occurs prior to the Deferred Date, the redemption of the Participant's Restricted Stock Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Redemption Date is delayed one or more times pursuant to any election made by the Participant pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date."

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are paid 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 as of the date of payment of any such dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant in a lump sum cash 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 Units that have been forfeited as provided in Paragraph 3 above shall be immediately forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth in subparagraph 3(e) of this Grant, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) 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.

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

(a) To the extent permitted by Code section 409A, 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 shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that 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.

(b) 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.

(c) 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, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2019 (and as they may be amended,

restated, supplemented and interpreted), and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

10. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

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 (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) 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. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) 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.

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 with respect to the dividend equivalent rights provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock 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 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.

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 redemption of the Restricted Stock Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units may, at the Committee's discretion, 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 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.

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 conflict 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 (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) 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, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

19. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Restricted Stock Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made

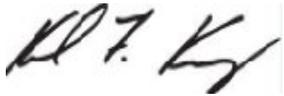
pursuant to Paragraph 5 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

20. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

IN WITNESS WHEREOF, the Company has caused this Grant to be executed, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Karl F. Kurz

A handwritten signature in black ink, appearing to read "K. F. Kurz", is written over a light blue horizontal line.

Its: Chairman of the Board

AMERICAN WATER WORKS COMPANY, INC.  
2017 OMNIBUS EQUITY COMPENSATION PLAN  
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of April 1, 2020 (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to Walter J. Lynch (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the “Plan”)) has adopted a 2020 Long Term Performance Plan (“2020 LTPP”) 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 three separate grants: a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2020 LTPP and to grant the Participant an Equity Award under the 2020 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2020 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on the Performance Goal (defined below) 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 4,737 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 Goal 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 Goal 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 Goal.

(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 described in subparagraph (b) below for the Performance Period (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) The Company’s Total Stockholder Return (“TSR”) (as described in subparagraph (c) below) will be compared to the TSR of the Peer Group companies set forth in Exhibit A attached hereto over the Performance Period (as defined below). 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 percentile ranking 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%	200%
<i>Target</i>	50%	100%
<i>Threshold</i>	25%	25%

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, 2019, and December 31, 2022, 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. If December 31 is not a trading day, the closing stock price on the first trading day prior to December 31 shall be used. To determine stock price performance, each closing stock price shall be adjusted by a dividend adjustment factor. 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. The dividend adjusted price provides the closing price for the requested day, week, or month, adjusted for all applicable splits and dividend distributions. At the end of the Performance Period, the TSR for the Company, and for each company in the Peer Group, shall be determined pursuant to the following formula:

$$\text{TSR} = \frac{(\text{Dividend Adjusted Ending Stock Price} - \text{Dividend Adjusted Initial Stock Price})}{\text{Dividend Adjusted Initial Stock Price}}$$

The result shall be rounded to the nearest hundredth of one percent (.01%).

(d) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(f) below), the Committee will determine whether and to what extent the Performance Goal has 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, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the “surviving corporation”)) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), 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”). In the event the Participant’s Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant’s employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in paragraph 4(e) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the “Termination Date”) and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, “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 (3)-year period beginning on January 1, 2020 and ending December 31, 2022, and the term “Peer Group” shall mean those companies included in Exhibit A. If at any time during the Performance Period a company in the Peer Group is no longer a publicly traded entity, such company shall be removed from the Peer Group as of January 1 of the year in which the company is no longer publicly traded.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraphs 3(e), 4(b), or 4(c), 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 Goal and the requirements of this Grant are met as of the last day of the Performance Period. The pro-rata portion earned will be equal to 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 31, 2021, but prior to January 31, 2022; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2022, but prior to January 31, 2023; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2023. 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 earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement, then the Participant will earn the number of Performance Units that would have been earned if the Participant has remained employed through the last day of the Performance Period, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period. If the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement pursuant to this subparagraph (b), the number of Performance Units that are earned based on the Performance Goal and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(c) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement, then the Participant will earn 75% of the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period, and unearned Performance Units shall be immediately forfeited. If the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement pursuant to this subparagraph (c), then the number of Performance Units that are earned based on the Performance Goal and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Early Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age fifty-five (55) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(d) Except as set forth in Paragraphs 4(b) or 4(c), if at any time prior to the earlier of January 31, 2021 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.

(e) 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 Goal. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (v) 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 earliest of (a) January 31, 2023 (the "Distribution Date"), (b) the Change of Control Date or (c) the Termination 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 immediately 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, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) 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 (c) 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 2020 LTPP, complete the deferral election form provided to the Participant and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided 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 or the Termination 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 or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to any election made by the Participant 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), the Change of Control Date or the Termination Date, if any dividends are paid 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 as of the date of payment of any such 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 in a lump sum cash 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 the Plan or 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.

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

(a) To the extent permitted by Code section 409A, 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 shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that 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.

(b) 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.

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

i. to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; 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 guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2019 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. 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 (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) 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. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) 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.

13. 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 with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. 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.

15. 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.

16. 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 may, at the Committee's discretion, 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.

17. 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.

18. 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 conflict of laws provisions thereof.

19. 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 (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) 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, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute “deferred compensation” under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. 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. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

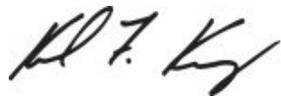
21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

*[SIGNATURE PAGE FOLLOWS]*

IN WITNESS WHEREOF, the Company has caused this Grant to be executed, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Karl F. Kurz

A handwritten signature in black ink, appearing to read "Karl F. Kurz". The signature is written in a cursive style with a large initial "K".

Its: Chairman of the Board

PSU Grant A

Exhibit A

PEER GROUP COMPANIES

1. Alliant Energy Corporation
2. Ameren Corporation
3. Atmos Energy Group
4. CenterPoint Energy
5. CMS Energy Corporation
6. Entergy Corporation
7. Eversource Energy
8. Eversource Energy
9. MDU Resources Group
10. NiSource Inc.
11. OGE Energy Corp.
12. Pinnacle West Capital Corporation
13. PPL Corporation
14. UGI Corporation
15. WEC Energy Group, Inc.

AMERICAN WATER WORKS COMPANY, INC.  
2017 OMNIBUS EQUITY COMPENSATION PLAN  
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of April 1, 2020 (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to Walter J. Lynch (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the “Plan”)) has adopted a 2020 Long Term Performance Plan (“2020 LTPP”) 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 three separate grants: a restricted stock unit and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2020 LTPP and to grant the Participant an Equity Award under the 2020 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2020 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on Performance Goals (defined below) relating to compounded earnings per share, 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 3,106 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 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) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(d) below), 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.

(c) If a Change of Control occurs prior to the end of the Performance Period, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the “surviving corporation”)) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), 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”). In the event the Participant’s Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant’s employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in Paragraph 4(e) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the “Termination Date”) and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, “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 (3)-year period beginning on January 1, 2020 and ending December 31, 2022.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraphs 3(c) 4(b) or 4(c), 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 pro-rata portion earned will be equal to 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 31, 2021, but prior to January 31, 2022; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2022, but prior to January 31, 2023; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2023. 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 earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement, then the Participant will earn the number of Performance Units that would have been earned if the Participant has remained employed through the last day of the Performance Period, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. If the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement pursuant to this subparagraph (b), the number of Performance Units that are earned based on the Performance Goals and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(c) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement, then the Participant will earn 75% of the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period, and unearned Performance Units shall be immediately forfeited. If the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement pursuant to this subparagraph (c), then the number of Performance Units that are earned based on the Performance Goals and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Early Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age fifty-five (55) and has five (5) total years of employment or service with the Employer which includes

at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(d) Except as set forth in Paragraphs 4(b) or 4(c), if at any time prior to the earlier of January 31, 2021 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.

(e) 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, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or non-solicitation agreement between the Participant and the Employer; or (v) 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 earliest of (a) January 31, 2023 (the "Distribution Date"), (b) the Change of Control Date, or (c) the Termination 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 immediately 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, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) 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 (c) 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 2020 LTPP, complete the deferral election form provided to the Participant, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided 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 or the Termination 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 or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to any election made by the Participant 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), the Change of Control Date or the Termination Date, if any dividends are paid 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 as of the date of payment of any such 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 in a lump sum cash 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 the Plan or 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.

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

(a) To the extent permitted by Code section 409A, 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 shares of Company Stock be qualified for listing on the New York Stock

Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that 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.

(b) 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.

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

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; 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 guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2019 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. 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 (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) 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. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) 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.

13. 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 with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. 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.

15. 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.

16. 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 may, at the Committee's discretion, 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.

17. 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.

18. 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 conflict of laws provisions thereof.

19. 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 (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) 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, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. 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. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

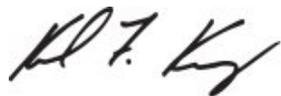
21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Grant to be executed, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Karl F. Kurz

A handwritten signature in black ink, appearing to read "Karl F. Kurz". The signature is written in a cursive style with a large initial "K".

Its: Chairman of the Board

**“PSU GRANT B – EPS”**

**EXHIBIT A**

**PERFORMANCE GOALS**

The number of Performance Units that may be earned shall be determined based on the achievement of Compounded Earnings Per Share Growth (as described below) over the Performance Period.

Compounded Earnings Per Share (“EPS”) Growth – will be calculated based on fully diluted EPS calculated in accordance with US GAAP as reported in the Company’s audited consolidated financial statements adjusted to exclude all items of gain, loss or expense for the fiscal year determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principle or, as determined by the Committee, any other change or event similar in nature. The starting point for the calculation will be adjusted EPS of \$3.61 for the year ended December 31, 2019. The ending point for the calculation will be EPS for the year ended December 31, 2022, adjusted to exclude all items of gain, loss or expense for the fiscal year determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principle or, as determined by the Committee, any other change or event similar in nature.

The award scale for Compounded EPS Growth is as follows:

Compounded EPS Growth	
Actual Compounded EPS Growth	Target Award
10.0% or more	200%
9.0%	175%
8.0%	100%
7.0%	25%
< 6.0%	0%

If actual achievement of the Performance Goal does not meet threshold performance (i.e., less than 6.0% for Compounded EPS Growth, then that Performance Goal 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 200%, and the maximum award that may be earned by the Participant is capped at 200% of the Target Award.

Example:

The following is an example calculation for a Participant with a Target Award of 1,000 Performance Units:

Earnings Per Share

	12/31/2019 Adjusted	12/31/2022 Illustration
Adjusted diluted earnings per share from continuing operations	\$3.61	\$4.65
Compounded EPS growth		<b>8.80%</b>

Earned Performance Units

	Achievement	Award
Compounded EPS Growth	8.80%	160.0 %

In this example, the individual who was awarded a Target Grant of 1,000 Performance Units would earn 1,600 Performance Units (1,000 x 1.6), which is convertible into an equivalent number of shares of Company Stock assuming all other terms and conditions of the Grant have been satisfied.

AMERICAN WATER WORKS COMPANY, INC.  
2017 OMNIBUS EQUITY COMPENSATION PLAN  
STOCK UNIT GRANT

This STOCK UNIT GRANT, dated as of May 13, 2020 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to \_\_\_\_\_ (the "Participant").

RECITALS

WHEREAS, the Board of Directors of the Company (the "Board") has determined to grant each non-employee director of the Company on the date of the Company's 2020 Annual Meeting of Shareholders a stock unit grant that will be converted to shares of common stock of the Company, par value \$0.01 per share, (the "Company Stock") at a later date;

WHEREAS, the Participant is a non-employee director on the Board; and

WHEREAS, the Board has determined that the stock unit grant granted to the Participant shall be issued under the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such 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 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 "Stock Units"). Each Stock Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable distribution date, as described in Paragraph 4 below.
  2. Stock Unit Account. The Company shall establish and maintain a Stock Unit account as a bookkeeping account on its records (the "Stock Unit Account") for the Participant and shall record in such Stock Unit Account the number of 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 Stock Unit Account established for the Participant.
  3. Vesting. The Participant shall be fully vested in the Stock Units credited to the Participant's Stock Unit Account pursuant to this Grant on the Date of Grant.
  4. Distribution. The Stock Units shall be converted to shares of Company Stock and distributed by the Company within thirty (30) days following the earlier of (i) August 13, 2021 (the "Specified Date") (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), (ii) the Participant's separation from service (within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code")) with the Company (the "Separation from
-

Service Date”), or (iii) the date of a Change of Control (as defined below) (the “Change of Control Date”). At the time of distribution, all Stock Units shall be converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single distribution of such shares of Company Stock, which shall be issued under the Plan. For purposes of this Grant, the term “Change of Control” shall have the same meaning 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 Code and its corresponding regulations.

5. Deferrals. The Participant may make an irrevocable election to defer the Specified Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Stock Units, plus dividend equivalents earned on such Stock Units as described in Paragraph 6 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 Specified Date cannot be earlier than five (5) years from the original Specified Date under Paragraph 4 (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 Specified Date (or twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Specified Date, the Participant must elect to defer 100% of the Stock Units, including corresponding dividend equivalents, granted to the Participant under this Grant and complete the deferral election form provided to the Participant, in the form attached hereto as Exhibit A or as may subsequently modified in the discretion of the Board. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided 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 Separation from Service Date or Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant’s Stock Units, plus corresponding dividend equivalents, will be made as a result of the occurrence of the Separation from Service Date or Change of Control Date, whichever is earlier. If a Specified Date is delayed one or more times pursuant to this Paragraph 5, the new Specified Date shall be referred to as the “Deferred Date.”

6. Dividend Equivalents. Until the earlier of the Specified Date (or the Deferred Date, if elected), Separation from Service Date or Change of Control Date, if any dividends are paid 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 Stock Units credited to the Participant’s Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Stock Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant’s Dividend Equivalent Account. No interest shall accrue on any dividend equivalents credited to the Participant’s Dividend Equivalent Account.

7. 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 Stock Units, and, in the event of a Change of Control, the Board 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 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 Board 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 Board 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 distribution of the Stock Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that 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 Board. 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 Stock Units, the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and its Personal Securities Trading and Preclearance Practice; and

(ii) that the shares of Company Stock obtained by the Participant upon the distribution of the Stock Units shall not be transferred or disposed of by any means until

the Participant owns enough shares of Company Stock, or shares underlying stock units convertible into shares of Company Stock, or time-based restricted Company Stock, to meet or exceed five (5) times the Participant's annual cash retainer, which ownership requirement must be satisfied by the fifth (5th) anniversary of the Participant's commencement of service as a director on the Board.

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 Board 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 Board 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 Board with respect to this Grant and the Plan.

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

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

13. Assignment and Transfers. No Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Stock 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 Stock 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.

14. Withholding. To the extent required by applicable law, the Participant shall be required to pay to the Company, or make other arrangements satisfactory to the Company to provide for the payment of, any federal, state, local or other taxes that the Company is required to withhold with respect to the Grant, vesting or distribution of the Stock Units and dividend equivalents.

15. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by 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 records of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by facsimile, e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means), 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) 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. Except according to a valid election made pursuant to Paragraph 5 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 are payable to the Participant upon separation from service (within the meaning of section 409A of the Code) 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. If the Participant dies during such six (6)-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.

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: **Walter Lynch**

A handwritten signature in black ink, appearing to read "Walter Lynch", written over a light gray rectangular background.

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 Stock Units, plus corresponding dividend equivalents, (the "Deferred Units") granted to me pursuant to the Stock Unit Grant, dated as of May 13, 2020, (the "Grant") under the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan") that would have been distributed by American Water Works Company, Inc. to me on the Specified 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 Specified Date, and this election is at least twelve (12) months prior to the Specified Date (to make this deferral election you must defer all of the Stock Units, plus corresponding dividend equivalents, granted to you pursuant the Grant, meaning there is no partial deferral):

<b>Number of Stock Units, and Dividend Equivalents, to be Further Deferred (All Must Be Deferred)</b>	<b>Original Specified Date (Election Must Be Made at Least 12 Months Prior to the Specified Date)</b>	<b>Deferred Date (Must be a date that is at least 5 years later than the Original Specified Date)</b>
100%	August 13, 2021	

**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 Specified Date), and (ii) I will not be entitled to receive distribution of the Deferred Units on an earlier date, except in the event that the Separation from Service Date (as defined in the Grant) or 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 Specified Date, and shall not take effect until twelve (12) months after the date on which I make this election. I further understand and agree that the terms and conditions of the Grant and the Plan are hereby incorporated into this form. Lastly, I understand and agree that this deferral election applies to 100% of the Stock Units, and corresponding dividend equivalents, granted to me pursuant to the Grant.

**PARTICIPANT SIGNATURE**

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

Receipt Acknowledged:

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

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

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,  
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Walter J. Lynch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

By: /s/ WALTER J. LYNCH

Walter J. Lynch

President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,  
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, M. Susan Hardwick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

AMERICAN WATER WORKS COMPANY, INC.  
CERTIFICATION  
PURSUANT TO U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Walter J. Lynch, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ WALTER J. LYNCH

Walter J. Lynch  
President and Chief Executive Officer  
(Principal Executive Officer)  
August 5, 2020

AMERICAN WATER WORKS COMPANY, INC.  
CERTIFICATION  
PURSUANT TO U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Susan Hardwick, Executive Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ M. SUSAN HARDWICK

---

M. Susan Hardwick

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

August 5, 2020