

ORIGINAL

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of)
Capital Utilities, Inc., Riverside Utility)
Company, Inc. and Foxfire Utility)
Company, Inc. for Authority to Sell and)
Transfer Their Stock and to Transfer)
Control of Said Companies to operating)
subsidiaries of AquaSource, Inc.)

Case No. WM-99-238

**JOINT APPLICATION FOR AUTHORITY TO SELL AND TRANSFER
STOCK AND CONTROL AND REQUEST FOR EXPEDITED CONSIDERATION**

Come now Capital Utilities, Inc., Riverside Utility Company, Inc., Foxfire Utility Company, Inc., and AquaSource, Inc., through its wholly-owned subsidiary AquaSource Utility, Inc., pursuant to Section 393.190 RSMo and 4 CSR 240-2.060(6) and (9), and for their Joint Application For Authority To Sell And Transfer Stock And Control and Request for Expedited Consideration, respectfully state as follows:

1. Capital Utilities, Inc. ("CU") is a Missouri corporation providing regulated water and sewer services to Missouri customers in its Commission-certificated service areas pursuant to certificates of public convenience and necessity granted in Case Nos. SA-90-224, WM-92-195, WM-98-130 and WM-98-165. Riverside Utility Company, Inc. ("RU") is a Missouri corporation providing regulated water services to Missouri customers in its Commission-certificated service areas pursuant to certificates of public convenience and necessity granted in Case Nos. WM-93-43, WM-94-240 and WA-81-255. Foxfire Utility Company, Inc. ("FU") is a Missouri corporation providing regulated water and sewer services to Missouri customers in its Commission-certificated service area pursuant to a certificate of public convenience and necessity granted in Case No. WA-95-31. The stock of two of the companies - CU and RU - is wholly-

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Missouri Public
Service Commission

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owned by Mr. and Mrs. Garah F. Helms; Mr. and Mrs. Garah F. Helms are also the majority shareholders of the other company, FU. Furthermore, Mr. and Mrs. Garah F. Helms also manage the operations of all three companies from their main office located at 312 Lafayette, Jefferson City, Missouri 65101, telephone number (573) 634-2699. The Articles and Certificate of Incorporation for CU, RU and FU have previously been filed with the Commission in the cases referenced above, and are incorporated herein by this reference.

2. AquaSource, Inc., ("AquaSource") is a Texas corporation and a wholly-owned subsidiary of DQE, Inc., an innovative utility services company with active business and partnership ventures worldwide, which is headquartered in Pennsylvania. AquaSource Utility, Inc., ("ASI") is a Texas corporation and a wholly-owned subsidiary of AquaSource. AquaSource is a fast-growing water utility headquartered in Houston, Texas, with operating revenues through the third quarter of 1998 in excess of thirteen million dollars, and with strategic regulated water and sewer operations located in the states of Connecticut, Indiana, Massachusetts, Rhode Island and Texas. AquaSource's principal business address is 16810 Barker Springs, Suite B215, Houston, Texas 77084 and its telephone number is (281) 578-3121.

3. On October 16, 1998, AquaSource, through its wholly-owned subsidiary AquaSource Services and Technologies, Inc., acquired Water Management Services of Missouri via a stock merger. Water Management Services of Missouri is an unregulated corporation which is a water and sewer operations contractor and which was wholly-owned by Mr. and Mrs. Garah F. Helms. This transaction was negotiated in conjunction with, and contingent upon, the proposed stock purchase of CU, RU and FU by subsidiaries of AquaSource for the aggregate purchase price of all four companies being ** _____

_____**. If approved by the Commission, the transaction as proposed will result in three separate AquaSource subsidiaries, under the AquaSource subsidiary ASI, to be known as AquaSource/CU, Inc., AquaSource/RU, Inc., and AquaSource/FU, Inc., all of which will assume the operations and responsibilities of CU, RU, and FU, respectively, and which will become regulated by this Commission under the existing CU, RU, and FU certificates and tariffs.

4. The proposed transaction also contemplates that all four of the current Helms' companies will continue to be operated under the direction of Mr. Helms and Mr. and Mrs. Helms have executed employment agreements with AquaSource as part of the October 16, 1998 transaction. No change to the rates, services or service areas currently authorized for CU, RU or FU are contemplated as a direct result of the proposed transactions.

5. Pursuant to 4 CSR 240-2.060(9)(A), draft copies of the offers and agreements to purchase stock and the plans of merger to be entered into by the respective companies are attached hereto as Appendix A. Final, executed versions of the agreements will be late-filed in this docket upon their execution. Pre-acquisition and post-acquisition charts depicting the proposed transactions also have been included for the Commission's reference.

6. Pursuant to 4 CSR 240-2.060(9)(B), certified copies of the resolutions of the applicable Boards of Directors authorizing the acquisition of the stock to be acquired are attached hereto as Appendix B.

7. Approval of the proposed stock acquisitions will not be detrimental to the public interest, and in fact will be in the public interest, because AquaSource and ASI have the financial capability to operate and maintain the systems to be acquired and make capital improvements as

deemed necessary (i.e., capacity or development expansion), as well as greater access to the financial markets, if necessary. AquaSource and ASI will have experienced operators maintaining the systems acquired through the acquisition of Water Management Services of Missouri and through the addition of qualified employees as needed. Furthermore, the existing rates charged to customers of the systems to be acquired will not change through this application.

8. Since, if approved, the three new AquaSource operating subsidiaries will simply adopt the three Helms' utilities' certificates and tariffs without substantive change, and since the transaction itself will not consolidate the three existing Helms' companies into one company, it is unclear as to whether the proposed transactions fall under the requirements of 4 CSR 240-2.060(6). However, in an attempt to help expedite the Commission's review process, the Applicants have submitted herewith as Appendix C their respective balance sheets and income statements. There should be no impact on the tax revenues of any political subdivision in which any of the current regulated Helms' companies are currently located as a result of the proposed transactions. As the Missouri operating companies to be known after the transactions as AquaSource/CU, AquaSource/RU, and AquaSource/FU will not exist unless the proposed transactions are approved by the Commission, each company agrees to file the relevant documents required under 4 CSR 240-2.060(2) as a compliance filing shortly after and assuming the Commission issues its order approving this Joint Application.

9. Correspondence, communications, pleadings and orders and decisions of the Commission concerning this matter should be sent to the following:

Charles Brent Stewart
Stewart & Keevil, L.L.C.
1001 Cherry Street
Suite 302
Columbia, MO 65201
(573) 499-0635

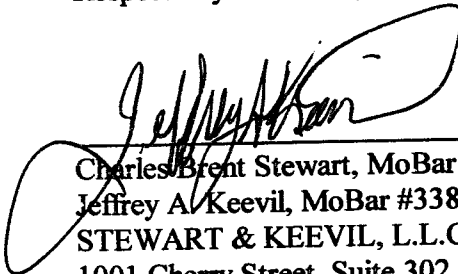
Michael J. Ashfield
Manager - Acquisitions
AquaSource, Inc.
16810 Barker Springs
Suite B 215
Houston, TX 77084
(281) 578-3121

Garah F. Helms
Capital Utilities, Inc.
P.O. Box 7017
Jefferson City, MO 65102
(573) 634-2699

10. Prior to making this filing, the Joint Applicants have met with and discussed the proposed transactions with both the Commission Staff and the Office of the Public Counsel. The Joint Applicants do not believe that any hearing is required in this matter. Since the transaction involving the service company, Water Management Services of Missouri, has already closed, it would benefit the selling shareholders if all four transactions closed in the same year; in addition, the sooner the transactions are approved, the sooner AquaSource can incur capital to make any necessary improvements and make the operations more efficient. As the Joint Applicants are ready to begin operations under the three new AquaSource subsidiaries pending a positive Commission decision by the first of the year, the Joint Applicants request that the Commission expedite and issue its decision on or before December 31, 1998.

WHEREFORE, the Joint Applicants respectfully ask the Commission to issue its Order no later than December 31, 1998: 1) approving the sale and transfer of stock and control from the three Helms companies to the three AquaSource companies, as more specifically described hereinabove; 2) approving the transfer of the existing certificates and tariffs, accordingly; and 3) for any other relief deemed just and reasonable in the premises.

Respectfully submitted,

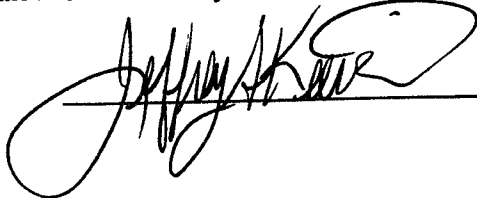


Charles Brent Stewart, MoBar #34885
Jeffrey A. Keevil, MoBar #33825
STEWART & KEEVIL, L.L.C.
1001 Cherry Street, Suite 302
Columbia, Missouri 65201
(573) 499-0635

ATTORNEYS FOR JOINT APPLICANTS
CAPITAL UTILITIES, INC.
RIVERSIDE UTILITY COMPANY, INC.
FOXFIRE UTILITY COMPANY, INC.
AQUASOURCE, INC.

CERTIFICATE OF SERVICE

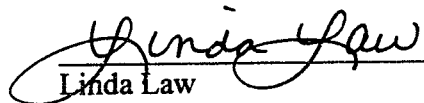
The undersigned hereby certifies that a copy of the foregoing Application, with appendices, was served on the General Counsel's Office and the Office of the Public Counsel by hand-delivery, this 25th day of November, 1998.



VERIFICATION

STATE OF TEXAS §
 §
COUNTY OF HARRIS §


I, Linda Law, hereby declare under penalty of perjury, that I am Assistant Secretary of AquaSource/FU, Inc.; that I am authorized to make this Verification on its behalf; that I have read the foregoing Joint Application and exhibits; and that the facts stated therein are true and correct to the best of my information.



Linda Law

SUBSCRIBED and sworn to before me this 30th day of October, 1998.





Notary Public

My Commission Expires:

VERIFICATION

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

I, Linda Law, hereby declare under penalty of perjury, that I am Assistant Secretary of AquaSource/RU, Inc.; that I am authorized to make this Verification on its behalf; that I have read the foregoing Joint Application and exhibits; and that the facts stated therein are true and correct to the best of my information.



Linda Law

SUBSCRIBED and sworn to before me this 30th day of October, 1998.





Notary Public

My Commission Expires:

VERIFICATION

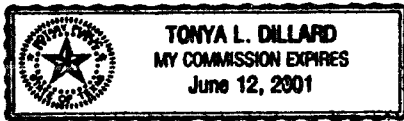
STATE OF TEXAS §
 §
COUNTY OF HARRIS §


I, Linda Law, hereby declare under penalty of perjury, that I am Assistant Secretary of AquaSource/CU, Inc.; that I am authorized to make this Verification on its behalf; that I have read the foregoing Joint Application and exhibits; and that the facts stated therein are true and correct to the best of my information.



Linda Law

SUBSCRIBED and sworn to before me this 30th day of October, 1998.





Notary Public

My Commission Expires:

VERIFICATION


State of Missouri
County of Cole

I Garah F. Helms being first duly sworn upon my oath, state that I am President of Capital Utilities, Inc.; Riverside Utility Company, Inc.; and Foxfire Utility Company, Inc.; all of Jefferson City, Missouri; that I am authorized to execute this application on behalf of the above named companies, and that the facts set forth in the foregoing application are true to best of my knowledge, information and belief.



Garah F. Helms

SUBSCRIBED and sworn to before me this 24th day of November, 1998.



Notary Public

My Commission Expires:

W. A. B. Kennedy
Notary Public, State of Missouri
County of Boone
My Commission Expires 03/11/00

AGREEMENT AND PLAN OF MERGER

among

CAPITAL UTILITIES, INC.

DQE, INC.

and

AQUASOURCE/CU, INC.

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- Exhibit B-2 - Articles of Merger (Missouri)
- Exhibit C - Escrow Agreement
- Exhibit D - Agreement of Shareholders and Indemnity Agreement

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of October ____, 1998, among AquaSource/RU, Inc., a Texas corporation ("Subsidiary"), Riverside Utility Company, a Missouri corporation (the "Company") and DQE, Inc., a Pennsylvania corporation ("Parent"), the sole shareholder of Subsidiary.

WHEREAS, the Boards of Directors of Subsidiary and the Company deem the merger of Subsidiary into the Company on the terms herein set forth to be desirable and in the best interests of their respective companies and shareholders, and have approved this Agreement and Plan of Merger ("Agreement"), and the Boards of Directors of Subsidiary and the Company have directed that this Agreement and the merger contemplated hereby be submitted to their respective shareholders for approval;

WHEREAS, each of AquaSource/FU, Inc. and AquaSource/CU, Inc. is to be merged into Foxfire Utility Company, and Capital Utilities, Inc., respectively, pursuant to an Agreement and Plan of Merger (together, the "Merger Agreements");

NOW, THEREFORE, in accordance with the applicable provisions of the laws of the States of Texas and Missouri, Subsidiary, the Company, and Parent agree that Subsidiary shall be merged into the Company which shall be the surviving corporation, and that the plan, terms and conditions of such merger shall be as follows:

ARTICLE I
DEFINITIONS

1.1 Definitions. In this Agreement:

"Agreement of Shareholders and Indemnity Agreement" shall mean the Agreement of Shareholders and Indemnity Agreement in the form of Exhibit D attached hereto and among the Company, AquaSource/FU, Inc., AquaSource/CU, Inc., Subsidiary, Parent, Garah F. Helms and Joy L. Helms;

"Benefit Plans" shall have the meaning set out in Section 6.12(B);

"Closing" shall mean the consummation of the transactions contemplated by this Agreement;

"Environmental Claim," shall mean any and all administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigations or other adversarial proceedings relating to any Environmental Law or Environmental Permit including, without limitation (i) any and all claims by governmental, territorial or regulatory authorities for enforcement, cleanup, removal, response, remedial or other similar actions or damages pursuant to any applicable Environmental Law and (ii) any and all claims by a third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Substances or arising from alleged injury or threat of injury to human health, property, or the environment resulting from exposures to or releases of Hazardous Substances. An "Environmental Claim" includes, but is not limited to, a common law action, as well as a proceeding to issue, modify, terminate or enforce the provisions of an Environmental Permit or requirement of

Environmental Law, or to adopt or amend a regulation to the extent that such a proceeding attempts to redress violations or alleged violations of the applicable permit, license, or regulation;

"Environmental Law" shall mean any federal, state, territorial, local or foreign statute, law, rule, regulation, ordinance, code, policy (compliance with which is required by law or if the failure to comply therewith would be reasonably foreseeable to result in adverse administrative action) or rule of common law in effect and in each case as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to the delivery of public drinking water, the environment or Hazardous Substances, including, without limitation to the extent applicable under the circumstances, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. § 9601 *et seq.*; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11001 *et seq.*; the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 *et seq.*; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 *et seq.*; the Clean Air Act, 42 U.S.C. § 7401 *et seq.*; the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. § 136 *et seq.*; the Safe Drinking Water Act, 42 U.S.C. § 300f *et seq.*; the Toxic Substance Control Act, 15 U.S.C. § 2601 *et seq.*; the Oil Pollution Act of 1990, 33 U.S.C. § 2701 *et seq.*; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. § 5101 *et seq.*; the Atomic Energy Act, as amended, 42 U.S.C. § 2011 *et seq.*; any laws regulating the use of biological agents or substances including medical or infectious wastes; and the corresponding foreign,

territorial or state laws, regulations and local ordinances, which may be applicable, as any such acts may be amended;

"Environmental Permits" shall mean all permits, approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law;

"Escrow Agreement" shall mean the Escrow Agreement substantially in the form of Exhibit C attached hereto and among Subsidiary, AquaSource/FU, Inc., AquaSource/CU, Inc. Garah F. Helms, Joy L. Helms and AquaSource, Inc.

"Financial Statements" shall have the meaning set out in Section 6.5;

"Hazardous Substances" shall mean (i) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "hazardous air pollutants," "pollutants," "contaminants," "toxic chemicals," "toxics," "hazardous chemicals," "extremely hazardous substances," "regulated substances" or "pesticides" as defined as such in any applicable Environmental Law, (ii) any radioactive materials, asbestos-containing materials; urea formaldehyde foam insulation, and radon in harmful quantities or concentration that are regulated by any governmental authority having jurisdiction in the location of such materials and (iii) any other chemical, material or substances, exposure to which is prohibited, limited or regulated by any governmental authority having jurisdiction in the location of such substances on the basis of potential hazards;

"Intellectual Property Rights" shall have the meaning set out in Section 6.9;

"Knowledge", in respect of any person or entity, shall mean the actual knowledge of such person or entity and each director and officer of such person or entity after making all due and reasonable inquiries;

"Material Adverse Effect" shall mean a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of the Company;

"Merger" shall have the meaning set out in Section 2.1;

"Promissory Notes" shall mean promissory notes dated _____, issued by the Company in the aggregate amount of \$_____.

"Regulatory Consent" shall mean the consent of _____ to the sale of the Shares hereunder.

"Release" shall mean any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of any Hazardous Substance into the environment or into or out of any property, including the movement of any Hazardous Substance through or in the air, soil, surface water, groundwater or property; and

"Taxes" shall mean all income, gross receipts, profits, franchise, sales, use, occupation, property, capital, wealth, environmental, employment, severance, production, excise, stamp, transfer, workers' compensation, social security, withholding, or similar taxes, motor vehicle registration fees, customs or import duties, and all other taxes or all other governmental fees or charges of any nature whatsoever and however denominated, imposed by any country or political subdivision thereof, together with any interest, additions, or penalties with respect thereto.

ARTICLE II

THE MERGER

2.1 Effect of Merger. At the Effective Time of the Merger (as described in Article V), Subsidiary shall be merged into the Company (the Company being the surviving corporation), the separate existence of Subsidiary shall cease, and the Company as the surviving corporation shall continue its corporate existence under the laws of the State of Missouri under the name of AquaSource/RU, Inc. (the "Merger"); and the Company shall possess all the rights, privileges, powers, and franchises of a public as well as of a private nature and be subject to all the restrictions, disabilities, and duties of Subsidiary and all property, real, personal, and mixed, belonging to Subsidiary shall be vested in the Company; and all property, rights, privileges, powers, and franchises and every other interest shall be thereafter as effectually the property of the Company as they were of Subsidiary and the title to any real estate vested by deed or otherwise in Subsidiary shall not revert or be in any way impaired by reason of the Merger, provided that all rights of creditors and all liens upon any property of Subsidiary shall be preserved unimpaired and all debts, liabilities, and duties of Subsidiary shall thenceforth attach to the Company and may be enforced against the Company to the same extent as if such debts, liabilities, and duties had been incurred or contracted by the Company.

2.2 Further Assistance. From time to time as and when requested by Subsidiary or its successors or assigns, the officers and directors of the Company last in office shall execute and

deliver such deeds and other instruments and shall take or cause to be taken such other actions as shall be necessary to vest or perfect in or to confirm of record or otherwise the Company's title to, and possession of, all the property, interests, assets, rights, privileges, immunities, powers, franchises, and authority of Subsidiary, and otherwise to carry out the purposes of this Agreement.

2.3 Plan of Reorganization. A plan of reorganization between Parent, Subsidiary and the Company under the provisions of Sections 368(a)(1)(A) and 368(a)(2)(E) of the Internal Revenue Code is adopted as described in this Agreement.

ARTICLE III

ARTICLES OF INCORPORATION AND BYLAWS

3.1 Articles of Incorporation and Bylaws. At the Effective Time of the Merger, the Articles of Incorporation and Bylaws of the Company shall be the Articles of Incorporation and Bylaws of the surviving corporation.

ARTICLE IV

CONVERSION AND EXCHANGE OF SHARES

4.1 Conversion Ratio and Cash Payment. The manner of converting or exchanging the shares of the Company and Parent shall be as follows:

(A) Each share of common stock of Subsidiary issued and outstanding at the Effective Time of the Merger shall, by virtue of the Merger, automatically be converted into one fully paid and non-assessable share of common stock of the Company which, together, shall

constitute all of the issued and outstanding shares of common stock of the Company immediately after the Effective Time of the Merger.

(B) Subject to adjustment in accordance with the Agreement of Shareholders and Indemnity Agreement, each share of the Company's common stock issued and outstanding at the Effective Time of the Merger shall by virtue of the Merger and at the Effective Time of the Merger be converted into and become, without action on the part of the holders thereof:

(i) the right to receive

as more particularly described in the Prospectus dated August 22, 1997, as amended by the Pricing Supplement dated the Closing Date, and, upon delivery to Parent of certificates representing such common stock of the Company, certificates representing such Preferred Stock of Parent shall be delivered to Parent's transfer agent to be held for the benefit of such holders Garah F. Helms and Joy L. Helms; and

(ii) the right to receive

cash will, subject to Section 4.2, be paid in immediately available funds at the Closing.

4.2 Escrow. Cash in the amount of \$_____ will be withheld from the cash payment referred to in Section 4.1 and held by the escrow agent pursuant to the Escrow Agreement.

4.3 Aggregate Consideration. Subject to the adjustment referred to in Section 4.1(B) and the withholding referred to in Section 4.2, the aggregate price for the acquisition of the Company's common stock shall be

ARTICLE V

EFFECTIVE TIME OF MERGER

5.1 Effective Time. The merger shall become effective on the filing of Articles of Merger (in the forms attached hereto as Exhibit B-1 and Exhibit B-2) ("Articles of Merger") in the manner required by the laws of the States of Texas and Missouri (the date of such filing herein called the "Effective Time of the Merger"). The Articles of Merger shall be filed as soon as practicable after the Closing.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF TARGET COMPANY

The term "Disclosure Schedule" means the Disclosure Schedule attached hereto as Exhibit A, and the phrase "disclosed in the Disclosure Schedule" means expressly referred to in the Disclosure Schedule or in any of the documents referred to in the Disclosure Schedule. The Company represents and warrants to Subsidiary and Parent the following:

6.1 Corporate Existence and Qualification. Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Missouri, and is duly qualified to do business and is in good standing as a foreign corporation in each state where the character of its properties or the nature of its business requires it to be so qualified. The Company has the corporate power to own, operate and lease its properties and to carry on its business as presently conducted.

6.2 Power and Authority; Enforceability. The Company has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by the Company in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by the Company in connection with the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered on behalf of the Company and, assuming due authorization, execution and delivery by Parent and Subsidiary, constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms, except that (a) such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

6.3 Capitalization and Ownership. Details of the capital stock of the Company are set out in the Disclosure Schedule. All of such issued and outstanding shares of the Company are duly authorized, validly issued, fully paid and nonassessable and were not issued in violation of any preemptive or other rights of any person to acquire securities of such Company. Except for this Agreement, there are no outstanding options, convertible securities, rights (preemptive or other), warrants, calls or agreements relating to any capital stock of the Company.

6.4 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein (a) conflicts with or result in (or with

giving of notice or passage of time would result in) a breach, default or violation of (i) any of the terms, provisions or conditions of the charter or bylaws of the Company or (ii) any agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which the Company is a party or to which it is subject or by which its property is bound, (b) results in the creation of any lien, charge or other encumbrance on any material property or asset of the Company, or (c) requires the Company to obtain the consent of any private non-governmental third party. Except for the Regulatory Consent, no consent, action, approval or authorization of, or registration, declaration or filing with, any governmental department, commission, agency or other instrumentality having jurisdiction over the Company is required by the Company to authorize the execution and delivery of this Agreement by the Company or the performance of its terms by the Company.

6.5 Financial Statements. The Company has delivered to Subsidiary and Parent copies of (a) the unaudited consolidated balance sheet of the Company as of December 31, 1997, and the related unaudited consolidated statement of income of the Company for the year then ended and (b) the unaudited consolidated balance sheet of the Company as of July 31, 1998 (a true, complete and accurate copy of which is included in the Disclosure Schedule), and the related unaudited consolidated statement of income for the interim period from January 1, 1998 through July 31, 1998 (together the "Financial Statements"). The Financial Statements fairly present (i) the financial position of the Company as of the date of the Financial Statements and (ii) the results of the operations of the Company for the fiscal period ended on such date, all in conformity with generally

accepted accounting principles applied on a consistent basis with prior periods (except as otherwise stated therein or in the notes thereto) throughout the period involved. The Company owns no stock or any other equity interest in any other corporation, association or business entity and is not a party to any joint venture or partnership agreement. There are no liabilities, contingent or otherwise, of the Company not reflected in the Financial Statements or the Disclosure Schedule.

6.6 No Adverse Changes. Except as disclosed in the Disclosure Schedule, since July 31, 1998 there has been (a) no change in (i) the assets, liabilities or financial condition of the Company from that set forth in the Financial Statements or (ii) the condition (other than financial) or business of the Company, other than, with respect to clauses (i) and (ii) hereof, changes in the ordinary course of business the effect of which changes has not caused, individually or in the aggregate, a Material Adverse Effect, (b) no damage, destruction or loss, whether or not covered by insurance, having a Material Adverse Effect, (c) no labor dispute, other than routine grievances by individual employees, that has caused, individually or in the aggregate, a Material Adverse Effect, (d) no declaration or payment by the Company of any dividend or other distribution, in cash or property or other assets, (e) no transfer of any Intellectual Property Rights, (f) no mortgage or pledge of any assets of the Company, (g) no contractual obligation entered into by the Company providing for obligations of a party thereto of \$10,000 or more, (h) no agreement by the Company to borrow money or incur or guarantee indebtedness, or (i) no notice received regarding the termination or cancellation of any contract, to which the Company is a party.

6.7 Title to Properties. The Company has good and indefeasible title to all of its real properties purported to be owned in fee, and good and merchantable title to all of its other material properties and assets, real and personal, reflected in the Financial Statements, or purported to have been acquired after such date (excepting, however, property and other assets, in the aggregate not material to the Company, sold or otherwise disposed of subsequent to such date in the ordinary course of business), free of any mortgage, pledge, lien, charge, security interest or other encumbrance, subordination or adverse claim, except as reflected in the Financial Statements, disclosed in the Disclosure Schedule or for such imperfections of title and encumbrances as do not individually or in the aggregate materially detract from the value of such property or impair the business or property of the Company. The Company enjoys peaceful and undisturbed possession under all permits or leases under which it is operating, and all such leases are valid, subsisting and in full force and effect. The Company has not been advised of a breach of any such permit or lease and there is no basis for any such breach to be threatened.

6.8 Litigation, Judgments, Etc. There are no actions, claims, suits, investigations or proceedings to which the Company is a party pending or, to the Knowledge of the Company, threatened in any court or before or by any federal, state or other governmental department, commission, agency or other instrumentality (excluding any rulemaking, investigation or similar proceeding of general applicability and any appeal or petition for review relating thereto), or before any arbitrator, that may have a Material Adverse Effect or which seeks to prohibit, restrict or delay consummation of the transactions contemplated hereby. The Company is not in default with respect

to any judgment, order, writ, injunction, decree or award applicable to it of any court or other governmental instrumentality or arbitrator having jurisdiction over it. The Company has all permits, certificates, licenses, approvals, and other authorizations which are required in connection with the operation of its business, all such permits, certificates, licenses, approvals and other authorizations are in full force and effect and there is no basis for any breach thereof to be threatened. The Company is exercising reasonable efforts, to the extent customary in its businesses, to comply with all statutes, rules and regulations applicable to it of governmental authorities having jurisdiction over it, and is not in violation of or in default with respect to any statute, or any rule or regulation applicable to it of any governmental authority having jurisdiction over it, which violation or default individually or in the aggregate may have a Material Adverse Effect.

6.9 Intellectual Property Rights. The Disclosure Schedule sets forth a list of all patents, patent applications, trademarks (whether registered or not), trademark applications, trade names, copyrights, patent or know-how licenses (wherein the Company is either licensee or licensor), used in the ordinary course of business of the Company (the "Intellectual Property Rights"). The Intellectual Property Rights are owned, lawfully possessed or used by the Company. No past due royalties or other payments subsequent to the date hereof are or will be required to be paid to any person, firm or corporation who is the licensor under any license agreements as they presently exist. The Company is not in default in any material respect of any obligation with respect to any agreement with others concerning the Intellectual Property Rights. To the Knowledge of the Company: (i) there is no existing or threatened infringement, misuse or misappropriation by others

of the Intellectual Property Rights; (ii) there is no pending or threatened claim by the Company against others for any such infringement, misuse or misappropriation and there is no pending judicial proceeding involving any claim; and (iii) the Company has not received any written notice or claim of any infringement, misuse or misappropriation by the Company of any patent, trademark, trade name, copyright, intellectual property rights license or similar right owned by any third party.

6.10 Contractual Obligations.

(A) Except as disclosed in the Disclosure Schedule or the Financial Statements, the Company is not a party to any of the following, whether written or oral:

(i) express or implied contract for the employment of any individual employee that cannot be terminated by the Company without penalty within 30 days;

(ii) collective bargaining agreement or other contract with any labor union;

(iii) lease under which it is the lessee of real or personal property which lease (a) is not terminable without penalty on less than 30 days' notice and (b) provides for annual base rental payments in excess of \$10,000;

(iv) contract for the future purchase or sale of materials, supplies, equipment or services that is not terminable without penalty on less than 30 days' notice;

(v) agreement that purports to limit its freedom to compete in any line of business or in any geographic area or to borrow money or incur or guarantee indebtedness;
and

(vi) tax sharing agreement that will survive the date hereof.

(B) Except as disclosed in the Disclosure Schedule, the Company is not a party to any written or oral contract relating to the borrowing of money or the guaranty of any obligation for the borrowing of money, or policy of insurance that will not terminate upon the Merger.

(C) The Company is not, and upon consummation of the transactions contemplated hereby will not be, in default, or but for a requirement that notice be given or that a period of time elapse or both, would be in default, under any contract, agreement, lease or other instrument to which it is a party or by which it or its properties is bound which default may have a Material Adverse Effect.

(D) The Company has no Knowledge of any default in any obligation to be performed by any party to any material contract to which the Company is a party.

6.11 Taxes.

(A) All returns of Taxes, information and other reports required to be filed in any jurisdiction by the Company (collectively, "Tax Returns") have been timely filed and all such Tax Returns are true, correct and complete in all material respects. All Taxes applicable to the Company or any of its properties which are due and payable have been paid or provided for. The Company has no Knowledge of any proposed assessment of Taxes, interest or penalties against the Company for which adequate provision in accordance with generally accepted accounting principles has not been made in the Financial Statements. The provisions for Taxes in the Financial Statements are adequate for all open years. The Company has not given or been requested to give waivers or

extensions (or is or would be subject to a waiver or extension given by any other entity) of any statute of limitations relating to payment of any Taxes with respect to the Company or for which the Company may be liable. All Taxes that the Company is or was required by law to withhold or collect through the date hereof, have been duly withheld or collected, and, to the extent required, have been paid to the proper taxing authority or other person.

(B) No audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of the Company, nor has the Company received a ruling from the Internal Revenue Service or entered into any agreement regarding Taxes with any taxing authority that may, individually or in the aggregate, have a Material Adverse Effect after the date hereof.

6.12 Employee Benefit Plans.

(A) Except as set forth in the Disclosure Schedule, the Company does not maintain, sponsor, participate in or contribute to, and is not required to contribute to, directly or indirectly, and has no any obligation under:

(i) Any employee benefit plan, employee pension benefit plan, employee welfare benefit plan (including any medical, dental, disability, accident or sickness, salary continuation or life insurance plan or arrangement), or multiemployer plan, all as defined in the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), regardless of whether or not a plan is exempt from some or all of the otherwise applicable requirements of ERISA; or

(ii) Any bonus, deferred compensation, incentive compensation, restricted stock, stock purchase, stock option, stock appreciation right, debenture, supplemental pension, profit sharing, royalty pool, severance or termination pay plan, supplemental unemployment benefits plan, loan guarantee, relocation assistance, employee loan or other extensions of credit, or other similar plan, program, agreement, policy, commitment, arrangement or benefit currently in effect under which current or former employees or their dependents, beneficiaries, representatives or estates are currently or will in the future be entitled to benefits.

(B) With respect to each plan, program, policy or benefit referred to in the Disclosure Schedule (each, a "Benefit Plan"):

(i) Each Benefit Plan has been operated and administered in accordance with its terms and applicable laws, including but not limited to ERISA and the Internal Revenue Code of 1986, as amended (the "Code"). Each Benefit Plan that is intended to be qualified under the Code either has received from the Internal Revenue Service, or timely applied for, a determination letter on such Benefit Plan's qualified status.

(ii) Neither the Company nor any other party in interest (within the meaning of ERISA) has engaged in any non-exempt prohibited transaction with respect to any Benefit Plan under ERISA, the Code, and, to the Knowledge of the Company, there is no pending assertion of the occurrence of any such transaction.

(iii) All contributions required under applicable law or the terms of any Benefit Plan, collective bargaining agreement or other agreement relating to a Benefit Plan to be paid by the Company for all periods prior to the date hereof have been completely and timely made to each Benefit Plan when due, and the Company has established adequate reserves on its books to meet liabilities for contributions accrued but that have not been made because they are not yet due and payable.

(iv) There is no current or pending investigation or audit by the Internal Revenue Service, the Department of Labor or any other governmental entity of any Benefit Plan, nor has the Company received notification from any such governmental entity of such a pending audit or investigation, and there are no actions, suits or claims pending (other than routine claims for benefits) or threatened, with respect to any Benefit Plan or against the assets of any such Benefit Plan.

(v) No Benefit Plan is or ever has been a plan subject to Title IV of ERISA, Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code or is or ever has been a multiemployer plan as defined in Section 3(37) of ERISA or Section 414(f) of the Code.

(vi) The Company has substantially complied with all notice and continuation coverage requirements applicable to group health plans under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), with respect to all medical and health benefits provided by the Company that are subject to COBRA.

(C) There are no members of a "controlled group" of organizations (as defined in Section 414(b), (c), (m) or (o) of the Code) with the Company which sponsor or maintain any employee benefit plan within the meaning of Section 3(3) of ERISA which under Title IV of ERISA or any section of the Code or ERISA would subject the Company or any of its employee benefit plans or the fiduciaries thereof or their respective assets to any taxes, encumbrances, penalties or other liabilities.

6.13 Charter Documents. The Company has delivered to Subsidiary complete, true and accurate copies of the charter documents and bylaws of the Company as currently in effect.

6.14 Insurance. The Disclosure Schedule sets forth the issuers of and the amounts of coverage of all insurance policies which are owned by the Company and complete, true and accurate copies of such policies have been supplied to Subsidiary. All of such insurance policies are in full force and effect.

6.15 Environmental Matters.

(A) Except as set forth in the Disclosure Schedule, (i) the Company has obtained all Environmental Permits that are required in connection with the business, operations and properties of such Company, (ii) the Company has been, and the Company is, in compliance with all terms and conditions of all applicable requirements of Environmental Law and Environmental Permits, (iii) the Company has not received any written notice from a governmental authority of any violation, alleged violation, or liability arising under any requirements of Environmental Law or Environmental Permits, (iv) no Environmental Claims have ever been threatened or asserted or are

presently pending against the Company attributable to present or past operations on premises owned, leased or operated by the Company, and (v) no condition or set of facts or circumstances exists that could reasonably be expected to give rise to an Environmental Claim against the Company.

(B) Except as set forth in the Disclosure Schedule, the Company has not disposed, treated, or arranged for the disposal or treatment of any toxic or hazardous waste, materials or substances at a site or location, or has leased, used, operated or owned a site or location which (i) has been placed on the National Priorities List or its state equivalent pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, as amended ("CERCLA"), or similar foreign, territorial or state law, (ii) the Environmental Protection Agency or relevant foreign, territorial or state authority has proposed, or is proposing, to place on the National Priorities List or foreign, territorial or state equivalent, (iii) is subject to a lien, administrative order or other demand either to take response or other action under CERCLA or other Environmental Law, or to develop or implement a "Corrective Action Plan" or "Compliance Plan," as each is defined in regulations promulgated pursuant to the Resource Conservation and Recovery Act, as amended, or to reimburse any person who has taken response or other action in connection with that site, (iv) is on any Comprehensive Environmental Response Compensation Liability Information System List, (v) has been the site of any Release from present or past operations of the Company (or any of their predecessors) which would be either reportable under any requirements of Environmental Law or which has caused at such site or any third party site any condition that has resulted in or could reasonably be expected to result in a claim against the Company under Environmental Law, or (vi)

to the Knowledge of the Company, is located within one mile of a property described in any of subclauses (i) through (iv) above.

(C) Except as set forth in the Disclosure Schedule, (i) the Company has never owned or operated any underground storage tanks (USTs) containing petroleum products or wastes or other substances regulated by 40 CFR Part 280 or other applicable requirements of Environmental Law, and has not owned or operated any real estate having any USTs, (ii) there are no polychlorinated biphenyl or asbestos in or on premises currently owned, leased or operated by the Company, and (iii) no entities or sites owned or operated by third parties have been used by the Company in connection with the treatment, storage, disposal or transportation of Hazardous Substances, except in compliance with applicable Environmental Law and except for such violations that have been remedied.

(D) Except as set forth in the Disclosure Schedule, the plants, structures, equipment and other properties currently owned or used by the Company are adequate and sufficient for the current operations of the Company in conformance with all applicable requirements of Environmental Law.

6.16 Personnel. The Disclosure Schedule sets forth a list of all officers, directors, employees, and consultants and agents with whom the Company has agreements not terminable at the will of the Company (by type or classification) and their respective rates of compensation (including the portions thereof attributable to bonuses), including any other salary, bonus or other payment arrangement made with any of them.

6.17 Accounts and Notes Receivable. All accounts receivable of the Company are (a) bona fide claims against debtors for work performed or other charges, (b) to the Knowledge of the Company, subject to no defenses, set-offs or counterclaims, and (c) collectible subject to the Company's normal reserve for bad debts. The Disclosure Schedule sets forth an accurate list of all notes receivable of the Company not shown in the Financial Statements.

6.18 Condition of Assets. Since July 31, 1998, the Company has operated, maintained and repaired its tangible assets in the ordinary course of business in a manner consistent with past practice. Such assets are capable of being used without the present need for repair or replacement except in the ordinary course of business in a manner consistent with the Company's past practice. Complete and accurate details of such assets are set forth in the Disclosure Schedule.

6.19 Real Property. The Company's ownership and use of its real properties and the location, construction, occupancy, operation and use thereof are in compliance with (a) all applicable laws, rules and regulations of any governmental authority (including, without limitation, those regulating the environment, health and safety), (b) all applicable decrees, orders, injunctions and other decisions of any court, arbitrator, governmental authority or administrative agency with jurisdiction over the Company, (c) all leases, easements, rights-of-way and other instruments creating or establishing any rights over such properties, and (d) all agreements, contracts, leases, deed restrictions and restrictive covenants, whether or not recorded in the public records, affecting the same. None of such real properties is located on or within the immediate vicinity of any waste management facility or fault line. None of such real properties has been condemned, requisitioned

or otherwise taken by any governmental authority, and no such condemnation, requisition or other taking is pending or, to the Knowledge of the Company, contemplated.

6.20 Accurate and Complete Records. Except as set forth in the Disclosure Schedule, the books, ledgers, financial records and other records of the Company for the period of time which is not less than three years prior to the date hereof or any such longer period as may be required by applicable laws or regulations:

- (a) are in the possession of the Company;
- (b) have been, in all material respects, maintained in accordance with all applicable laws, rules and regulations and generally accepted standards of practice;
and
- (c) are accurate and complete and do not contain or reflect any material discrepancies.

6.21 Brokerage Arrangements. The Company has not entered (directly or indirectly) into any agreement with any person, firm or corporation that would obligate Subsidiary or the Company to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated herein.

6.22 No Misleading Statements. The representations and warranties of the Company contained in this Agreement, the Disclosure Schedule and all other documents and information furnished to Subsidiary and its representatives pursuant hereto are complete and accurate and do not

and will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made not misleading.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES OF PARENT

Parent hereby represents and warrants to the Company as follows:

7.1 Corporate Organization, Good Standing, and Capitalization. Parent is a corporation duly organized, validly existing, and in good standing under the laws of the Commonwealth of Pennsylvania, with the requisite corporate power to own, operate and lease its properties and to carry on its business as presently conducted, except where failure to do so would not, individually or in the aggregate, have a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole.

7.2 Corporate Authority. Parent has authority to execute and deliver this Agreement. Neither the execution and delivery of this Agreement, nor performance hereunder, will conflict with, or result in a breach of the terms, conditions, or provisions of, or constitute a default under, the Certificate of Incorporation or bylaws of Parent or any material agreement or instrument to which Parent is a party or by which it is bound, except for breaches or defaults which would not, individually or in the aggregate, have a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole.

7.3 SEC Reports. Parent has filed with the Securities and Exchange Commission, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1997 under the Securities Exchange Act of 1934, as amended (as such documents have been amended since the time of each filing).

7.4 Shares To Be Issued. The shares of Parent Preferred Stock to be issued and delivered pursuant to this Agreement will be duly authorized and validly issued, fully paid and nonassessable.

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES OF SUBSIDIARY

Subsidiary hereby represents and warrants to the Company as follows:

8.1 Organization. Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas with corporate power to carry on its business as now being conducted.

8.2 Power and Authority; Enforceability. Subsidiary has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by Subsidiary in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by Subsidiary in connection with the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered on behalf of Subsidiary and, assuming due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of Subsidiary enforceable in accordance with its terms, except that (a) such enforcement may be limited

by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

8.3 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein (a) conflict with or result in (or with giving of notice or passage of time would result in) a breach, default or violation of (i) any of the terms, provisions or conditions of the charter or bylaws of Subsidiary or (ii) any material agreement, document, instrument, judgment, decree, order governmental permit, certificate or license to which Subsidiary is a party or to which it is subject or by which its property is bound, or (b) result in the creation of any lien, charge or other encumbrance on any material property of Subsidiary, or (c) require Subsidiary to obtain the consent of any private non-governmental third party. Except for the Regulatory Consent, no consent, action, approval or authorization of, or registration, declaration or filing with, any governmental department, commission, agency or other instrumentality having jurisdiction over Subsidiary is required by Subsidiary to authorize the execution and delivery of this Agreement by Subsidiary or the performance of its terms by Subsidiary.

ARTICLE IX

AGREEMENTS PRIOR TO CLOSING

From the date of this Agreement through the Closing:

9.1 Access. The Company shall keep Subsidiary informed regarding the continuing operation of the business of the Company and the Company shall permit Subsidiary and its authorized employees, agents, accountants, legal counsel and other representatives to have access to the books, records, plants, facilities, properties, personnel and officers of the Company for the purpose of conducting an investigation of its financial condition, corporate status, business properties and assets; provided, however that such investigation shall be conducted in a manner that does not interfere with normal operations of the Company.

9.2 Restrictions. Except as otherwise contemplated in this Agreement or with the consent of Subsidiaries, the Company will not:

(a) increase the rate or form of compensation payable to any employee or increase any employee benefits, except increases in compensation and benefit changes made in the ordinary course of business in accordance with established policies and past practice;

(b) declare or pay any dividend or make a distribution in cash, property or other assets (not including distributions in the ordinary course of business of cash in the course of paying obligations owed by the Company);

(c) acquire or dispose of any properties or assets, except in the ordinary course of business;

(d) engage in any one or more activities or transactions outside the ordinary course of business;

(e) transfer any Intellectual Property Rights, except in the ordinary course of business;

(f) create, incur, assume, guarantee or otherwise become liable or obligated with respect to any indebtedness, or make any loan or advance to, or any investment in, any person or entity;

(g) except in emergency situations, enter into a contractual obligation providing for obligations of a party thereto of \$1,000 or more;

(h) file any motions, orders, briefs, settlement agreements or other papers in any proceeding before any court of any federal, state or other governmental department, commission or agency or any arbitrator except with respect to pending proceedings where positions advanced are substantially consistent with previous positions;

(i) issue any securities relating to its capital stock; grant, or enter into any agreement to grant, any options, convertibility rights, other rights, warrants, calls or agreements relating to its capital stock; or redeem, repurchase or otherwise reacquire any of its capital stock;

(j) maintain its books of account other than in the usual, regular and ordinary manner and on a basis consistent with prior periods or make any change in any of its accounting methods or practices;

(k) allow the expiration, termination or cancellation of any of the insurance policies listed in the Disclosure Schedule, unless it is replaced, with no loss of coverage, by a comparable insurance policy; or

(l) agree or commit to do any of the foregoing.

9.3 Regulatory Compliance. Prior to the Closing, the Company will comply in all material respects with all applicable local, state and federal laws, rules and regulations, judgments, decrees, orders, governmental permits, certificates and licenses, including without limitation those relating to the filing of reports and the payment of income, franchise and other taxes due to be paid prior to the Closing.

9.4 Continued Operation of Business. Prior to the Closing, the Company will, to the extent required for continued operation of its business without impairment, use reasonable business efforts, (a) to preserve substantially intact its business organization, (b) to keep available the services of its employees, and (c) to preserve its present relationships with persons having significant business relations therewith.

9.5 Reasonable Business Efforts. Subsidiary and the Company shall use their reasonable business efforts to ensure that all of the conditions to the obligations of the Company and Subsidiary contained in Sections 10.2 and 10.3 respectively are satisfied timely (unless waived in accordance with Article X). Subsidiary and the Company shall cooperate to the maximum extent possible on all regulatory requirements to obtain the Regulatory Consent.

ARTICLE X

CLOSING

10.1 Closing. The Closing shall be held at the offices of Bracewell & Patterson, L.L.P. located at 711 Louisiana Street, Suite 2900, Houston, Texas 77002-2782 at 11:00 a.m. after fulfillment of the conditions set out in Section 10.2 and 10.3.

10.2 Closing Obligations of Subsidiary and Parent. The obligation of Subsidiary and Parent to consummate the transactions contemplated by this Agreement is subject, at the option of Subsidiary and Parent, to the satisfaction or waiver of the following conditions:

(a) Resolutions of the Company. The Company shall furnish Subsidiary with certified copies of resolutions duly adopted by (i) the Board of Directors of the Company authorizing the execution, delivery and performance of this Agreement, and (ii) the shareholders of the Company approving the plan of merger as required by Missouri Revised Statutes § § 351.410, *et seq.*;

(b) The Company's Corporate Documents. The Company shall deliver to Subsidiary the Stock and Minute Books and Corporate Seal of the Company, certified copies of the certificate of incorporation and bylaws of the Company and certificates of good standing from the state of incorporation of the Company and all states where it is qualified to do business as a foreign corporation;

(c) Stock Certificates. Each shareholder of the Company shall surrender such shareholder's Company's stock certificates to Subsidiary and shall receive a receipt

evidencing the number of shares of Preferred Stock being held by the transfer agent on his behalf;

(d) Escrow Agreement. The shareholders of the Company shall execute the Escrow Agreement;

(e) Directors and Officers. The shareholders of the Company shall furnish Subsidiary with written resignations of all directors and officers of the Company in form reasonably acceptable to Subsidiary;

(f) Statutory Compliance. All statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained;

(g) No Action, Suit, etc. No action, suit or proceeding shall have been commenced, pending or threatened, and no statute, rule, regulation or order shall have been proposed, enacted, promulgated or issued or deemed applicable to the transactions contemplated by this Agreement, by any United States federal or state government or governmental agency or instrumentality or court or private non-governmental person or entity, which, in the opinion of Subsidiary's counsel, reasonably may be expected to, (i) prohibit Subsidiary's ownership or operation of all or a material portion of Subsidiary's or the Company's business or assets, or compel Subsidiary to dispose of or hold separate all or a material portion of Subsidiary's or the Company's business or assets, as a result of the

transactions contemplated by this Agreement or (ii) render Subsidiary unable to consummate the transactions contemplated by this Agreement;

(h) Due Diligence. The completion of a Phase I Report regarding the facilities of the Company and, if recommended, the completion of a Phase II Report, each performed pursuant to ASTM Protocol, and the contents of each such report being to the reasonable satisfaction of Subsidiary. The completion by Subsidiary of its due diligence review of the businesses of the Company; and

(i) Consummation of Transactions. The transactions contemplated by the Merger Agreements shall have been consummated.

10.3 Closing Obligations of the Company. The obligation of the Company to consummate the transactions contemplated by this Agreement is subject, at the option of the Company, to the satisfaction or waiver of the following conditions:

(a) Resolutions of Subsidiary. Subsidiary shall furnish the Company with certified copies of resolutions duly adopted by the Board of Directors of Subsidiary authorizing the execution, delivery and performance of this Agreement;

(b) Subsidiary's Corporate Documents. Subsidiary shall furnish the Company with certified copies of the articles of incorporation and bylaws of Subsidiary;

(c) Escrow Agreement. Subsidiary, AquaSource/FU, Inc., AquaSource/CU, Inc. and AquaSource, Inc. shall execute the Escrow Agreement;

(d) Promissory Notes. The amounts outstanding on the Promissory Notes shall be repaid and the guarantees of the shareholders of the Company relating thereto shall be released;

(e) Statutory Compliance. All statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained.

(f) No Action, Suit, etc. No action, suit or proceeding shall have been commenced, pending or threatened, and no statute, rule, regulation or order shall have been proposed, enacted, promulgated or issued or deemed applicable to the transactions contemplated by this Agreement, by any United States federal or state government or governmental agency or instrumentality or court or private non-governmental person or entity, which, in the opinion of the Company's counsel, reasonably may be expected to render the Company unable to consummate the transactions contemplated by this Agreement; and

(g) Consummation of Transactions. The transactions contemplated by the Merger Agreements shall have been consummated.

ARTICLE XI

EMPLOYEE MATTERS

11.1 Status of Employees. After the Effective Time of the Merger any continued employment of the employees of the Company shall be on such terms and conditions and include such benefits as the Target Company shall deem appropriate in its sole and unlimited discretion.

ARTICLE XII

MISCELLANEOUS

12.1 Notice. Any notice, request, instruction, correspondence or other document required to be given hereunder by any party to another (herein collectively called "Notice") shall be in writing and delivered in person or by courier service requiring acknowledgment of delivery or mailed by certified mail, postage prepaid and return receipt requested, or by telecopier, as follows:

If to Subsidiary, addressed to:

AquaSource, Inc.
16810 Barker Springs, Suite B215
Houston, Texas 77084
Attention: Mr. Edward R. Wallace
Telecopier No. (281) 578-1620

With a copy to:
AquaSource/RU, Inc.
916 Congress, Suite 200
Austin, Texas 78701
Attention: Mr. Richard Zieren
Telecopier No.: (512) 320-8387

If to Parent, addressed to:

**DQE, Inc.
Box 68
Pittsburgh, Pennsylvania 15230-0068
Attention: Mr. Victor A. Roque
Telecopier No.: (412) 393-6055**

If to the Company, addressed to:

**Riverside Utility Company
312 Lafayette
Jefferson City, Missouri 63089
Attention: Mr. Garah F. Helms
Telecopier No.: (573) 635-2157**

**With a copy to:
Ms. Ann Monaco Warren
Inglis & Monaco
237 E. High Street
P.O. Box 67
Jefferson City, Missouri 65102**

Notice given by personal delivery or courier service shall be effective upon actual receipt. Notice given by mail shall be effective five days after deposit with the United States postal service. Notice given by telecopier shall be confirmed by appropriate answer back and shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if received before the recipient's normal business hours. All Notices by telecopier shall be confirmed promptly after transmission in writing by regular mail or personal delivery. Any party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

12.2 Public Statements. No party shall issue any public announcement or statement with respect to the transactions contemplated hereby for a period of twelve months following the date hereof without the written consent of the other parties.

12.3 Further Assistance. The Company shall execute and deliver without additional expense to Subsidiary such additional documents as are reasonably necessary to consummate the Merger.

12.4 Governing Law. The provisions of this Agreement and the documents delivered pursuant hereto shall be governed by and construed and enforced in accordance with the laws of the State of Missouri.

12.5 Entire Agreement; Amendments and Waivers. This Agreement, together with all schedules and exhibits attached hereto, constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

12.6 Severability. If any one or more of the provisions contained in this Agreement or in any other document delivered pursuant hereto shall, for any reason, be held to be invalid, illegal or

unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement or any other such document.

12.7 Headings and Exhibits. The headings of the several Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement. The schedules and exhibits referred to herein are attached hereto and incorporated herein by this reference.

12.8 Successors Bound; Third Parties. This Agreement may not be assigned by any party without the consent of the other parties. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended to confer upon any person or entity other than the parties hereto and their respective permitted successors and assigns, any liabilities, duties, rights, benefits or obligations hereunder.

12.9 Multiple Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[The remainder of this page has been intentionally left blank.]

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts,
all as of the date first above written.

RIVERSIDE UTILITY COMPANY

By: _____
Name: _____
Title: _____

DQE, INC.

By: _____
Donald J. Clayton, Vice President and Treasurer

AQUASOURCE/RU, INC.

By: _____
Name: _____
Title: _____

AGREEMENT AND PLAN OF MERGER

among

FOXFIRE UTILITY COMPANY

DQE, INC.

and

AQUASOURCE/FU, INC.

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Exhibit D - Agreement of Shareholders and Indemnity Agreement

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of October ____, 1998, among AquaSource/FU, Inc., a Texas corporation ("Subsidiary"), Foxfire Utility Company, a Missouri corporation (the "Company") and DQE, Inc., a Pennsylvania corporation ("Parent"), the sole shareholder of Subsidiary.

WHEREAS, the Boards of Directors of Subsidiary and the Company deem the merger of Subsidiary into the Company on the terms herein set forth to be desirable and in the best interests of their respective companies and shareholders, and have approved this Agreement and Plan of Merger ("Agreement"), and the Boards of Directors of Subsidiary and the Company have directed that this Agreement and the merger contemplated hereby be submitted to their respective shareholders for approval;

WHEREAS, each of AquaSource/RU, Inc. and AquaSource/CU, Inc. is to be merged into Riverside Utility Company, and Capital Utilities, Inc., respectively, pursuant to an Agreement and Plan of Merger (together, the "Merger Agreements");

NOW, THEREFORE, in accordance with the applicable provisions of the laws of the States of Texas and Missouri, Subsidiary, the Company, and Parent agree that Subsidiary shall be merged into the Company which shall be the surviving corporation, and that the plan, terms and conditions of such merger shall be as follows:

ARTICLE I
DEFINITIONS

1.1 Definitions. In this Agreement:

"Agreement of Shareholders and Indemnity Agreement" shall mean the Agreement of Shareholders and Indemnity Agreement in the form of Exhibit D attached hereto and among the Company, AquaSource/CU, Inc., AquaSource/RU, Inc., Subsidiary, Parent, Garah F. Helms and Joy L. Helms;

"Benefit Plans" shall have the meaning set out in Section 6.12(B);

"Closing" shall mean the consummation of the transactions contemplated by this Agreement;

"Environmental Claim," shall mean any and all administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigations or other adversarial proceedings relating to any Environmental Law or Environmental Permit including, without limitation (i) any and all claims by governmental, territorial or regulatory authorities for enforcement, cleanup, removal, response, remedial or other similar actions or damages pursuant to any applicable Environmental Law and (ii) any and all claims by a third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Substances or arising from alleged injury or threat of injury to human health, property, or the environment resulting from exposures to or releases of Hazardous Substances. An "Environmental Claim" includes, but is not limited to, a common law action, as well as a proceeding to issue, modify, terminate or enforce the provisions of an Environmental Permit or requirement of

Environmental Law, or to adopt or amend a regulation to the extent that such a proceeding attempts to redress violations or alleged violations of the applicable permit, license, or regulation;

"Environmental Law" shall mean any federal, state, territorial, local or foreign statute, law, rule, regulation, ordinance, code, policy (compliance with which is required by law or if the failure to comply therewith would be reasonably foreseeable to result in adverse administrative action) or rule of common law in effect and in each case as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to the delivery of public drinking water, the environment or Hazardous Substances, including, without limitation to the extent applicable under the circumstances, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. § 9601 *et seq* ; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11001 *et seq.*; the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 *et seq.*; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 *et seq.*; the Clean Air Act, 42 U.S.C. § 7401 *et seq.*; the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. § 136 *et seq.*; the Safe Drinking Water Act, 42 U.S.C. § 300f *et seq.*; the Toxic Substance Control Act, 15 U.S.C. § 2601 *et seq.*; the Oil Pollution Act of 1990, 33 U.S.C. § 2701 *et seq.*; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. § 5101 *et seq.*; the Atomic Energy Act, as amended, 42 U.S.C. § 2011 *et seq.*; any laws regulating the use of biological agents or substances including medical or infectious wastes; and the corresponding foreign,

territorial or state laws, regulations and local ordinances, which may be applicable, as any such acts may be amended;

"Environmental Permits" shall mean all permits, approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law;

"Escrow Agreement" shall mean the Escrow Agreement substantially in the form of Exhibit C attached hereto and among Subsidiary, AquaSource/CU, Inc., AquaSource/RU, Inc. Garah F. Helms, Joy L. Helms and AquaSource, Inc.

"Financial Statements" shall have the meaning set out in Section 6.5;

"Hazardous Substances" shall mean (i) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "hazardous air pollutants," "pollutants," "contaminants," "toxic chemicals," "toxics," "hazardous chemicals," "extremely hazardous substances," "regulated substances" or "pesticides" as defined as such in any applicable Environmental Law, (ii) any radioactive materials, asbestos-containing materials; urea formaldehyde foam insulation, and radon in harmful quantities or concentration that are regulated by any governmental authority having jurisdiction in the location of such materials and (iii) any other chemical, material or substances, exposure to which is prohibited, limited or regulated by any governmental authority having jurisdiction in the location of such substances on the basis of potential hazards;

"Intellectual Property Rights" shall have the meaning set out in Section 6.9;

"Knowledge", in respect of any person or entity, shall mean the actual knowledge of such person or entity and each director and officer of such person or entity after making all due and reasonable inquiries;

"Material Adverse Effect" shall mean a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of the Company;

"Merger" shall have the meaning set out in Section 2.1;

"Promissory Notes" shall mean promissory notes dated _____, issued by the Company in the aggregate amount of \$_____.

"Regulatory Consent" shall mean the consent of _____ to the sale of the Shares hereunder.

"Release" shall mean any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of any Hazardous Substance into the environment or into or out of any property, including the movement of any Hazardous Substance through or in the air, soil, surface water, groundwater or property; and

"Taxes" shall mean all income, gross receipts, profits, franchise, sales, use, occupation, property, capital, wealth, environmental, employment, severance, production, excise, stamp, transfer, workers' compensation, social security, withholding, or similar taxes, motor vehicle registration fees, customs or import duties, and all other taxes or all other governmental fees or charges of any nature whatsoever and however denominated, imposed by any country or political subdivision thereof, together with any interest, additions, or penalties with respect thereto.

ARTICLE II
THE MERGER

2.1 Effect of Merger. At the Effective Time of the Merger (as described in Article V), Subsidiary shall be merged into the Company (the Company being the surviving corporation), the separate existence of Subsidiary shall cease, and the Company as the surviving corporation shall continue its corporate existence under the laws of the State of Missouri under the name of AquaSource/FU, Inc. (the "Merger"); and the Company shall possess all the rights, privileges, powers, and franchises of a public as well as of a private nature and be subject to all the restrictions, disabilities, and duties of Subsidiary and all property, real, personal, and mixed, belonging to Subsidiary shall be vested in the Company; and all property, rights, privileges, powers, and franchises and every other interest shall be thereafter as effectually the property of the Company as they were of Subsidiary and the title to any real estate vested by deed or otherwise in Subsidiary shall not revert or be in any way impaired by reason of the Merger, provided that all rights of creditors and all liens upon any property of Subsidiary shall be preserved unimpaired and all debts, liabilities, and duties of Subsidiary shall thenceforth attach to the Company and may be enforced against the Company to the same extent as if such debts, liabilities, and duties had been incurred or contracted by the Company.

2.2 Further Assistance. From time to time as and when requested by Subsidiary or its successors or assigns, the officers and directors of the Company last in office shall execute and

deliver such deeds and other instruments and shall take or cause to be taken such other actions as shall be necessary to vest or perfect in or to confirm of record or otherwise the Company's title to, and possession of, all the property, interests, assets, rights, privileges, immunities, powers, franchises, and authority of Subsidiary, and otherwise to carry out the purposes of this Agreement.

2.3 Plan of Reorganization. A plan of reorganization between Parent, Subsidiary and the Company under the provisions of Sections 368(a)(1)(A) and 368(a)(2)(E) of the Internal Revenue Code is adopted as described in this Agreement.

ARTICLE III

ARTICLES OF INCORPORATION AND BYLAWS

3.1 Articles of Incorporation and Bylaws. At the Effective Time of the Merger, the Articles of Incorporation and Bylaws of the Company shall be the Articles of Incorporation and Bylaws of the surviving corporation.

ARTICLE IV

CONVERSION AND EXCHANGE OF SHARES

4.1 Conversion Ratio and Cash Payment. The manner of converting or exchanging the shares of the Company and Parent shall be as follows:

(A) Each share of common stock of Subsidiary issued and outstanding at the Effective Time of the Merger shall, by virtue of the Merger, automatically be converted into one fully paid and non-assessable share of common stock of the Company which, together, shall

constitute all of the issued and outstanding shares of common stock of the Company immediately after the Effective Time of the Merger.

(B) Subject to adjustment in accordance with the Agreement of Shareholders and Indemnity Agreement, each share of the Company's common stock issued and outstanding at the Effective Time of the Merger shall by virtue of the Merger and at the Effective Time of the Merger be converted into and become, without action on the part of the holders thereof:

(i) the right to receive .

as more particularly described in the Prospectus dated August 22, 1997, as amended by the Pricing Supplement dated the Closing Date, and, upon delivery to Parent of certificates representing such common stock of the Company, certificates representing such Preferred Stock of Parent shall be delivered to Parent's transfer agent to be held for the benefit of such holders Garah F. Helms and Joy L. Helms; and

(ii) the right to receive .

cash will, subject to Section 4.2, be paid in immediately available funds at the Closing.

4.2 Escrow. Cash in the amount of \$_____ will be withheld from the cash payment referred to in Section 4.1 and held by the escrow agent pursuant to the Escrow Agreement.

4.3 Aggregate Consideration. Subject to the adjustment referred to in Section 4.1(B) and the withholding referred to in Section 4.2, the aggregate price for the acquisition of the Company's common stock shall be

ARTICLE V

EFFECTIVE TIME OF MERGER

5.1 Effective Time. The merger shall become effective on the filing of Articles of Merger (in the forms attached hereto as Exhibit B-1 and Exhibit B-2) ("Articles of Merger") in the manner required by the laws of the States of Texas and Missouri (the date of such filing herein called the "Effective Time of the Merger"). The Articles of Merger shall be filed as soon as practicable after the Closing.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF TARGET COMPANY

The term "Disclosure Schedule" means the Disclosure Schedule attached hereto as Exhibit A, and the phrase "disclosed in the Disclosure Schedule" means expressly referred to in the Disclosure Schedule or in any of the documents referred to in the Disclosure Schedule. The Company represents and warrants to Subsidiary and Parent the following:

6.1 Corporate Existence and Qualification. Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Missouri, and is duly qualified to do business and is in good standing as a foreign corporation in each state where the character of its properties or the nature of its business requires it to be so qualified. The Company has the corporate power to own, operate and lease its properties and to carry on its business as presently conducted.

6.2 Power and Authority; Enforceability. The Company has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by the Company in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by the Company in connection with the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered on behalf of the Company and, assuming due authorization, execution and delivery by Parent and Subsidiary, constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms, except that (a) such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

6.3 Capitalization and Ownership. Details of the capital stock of the Company are set out in the Disclosure Schedule. All of such issued and outstanding shares of the Company are duly authorized, validly issued, fully paid and nonassessable and were not issued in violation of any preemptive or other rights of any person to acquire securities of such Company. Except for this Agreement, there are no outstanding options, convertible securities, rights (preemptive or other), warrants, calls or agreements relating to any capital stock of the Company.

6.4 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein (a) conflicts with or result in (or with

giving of notice or passage of time would result in) a breach, default or violation of (i) any of the terms, provisions or conditions of the charter or bylaws of the Company or (ii) any agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which the Company is a party or to which it is subject or by which its property is bound, (b) results in the creation of any lien, charge or other encumbrance on any material property or asset of the Company, or (c) requires the Company to obtain the consent of any private non-governmental third party. Except for the Regulatory Consent, no consent, action, approval or authorization of, or registration, declaration or filing with, any governmental department, commission, agency or other instrumentality having jurisdiction over the Company is required by the Company to authorize the execution and delivery of this Agreement by the Company or the performance of its terms by the Company.

6.5 Financial Statements. The Company has delivered to Subsidiary and Parent copies of (a) the unaudited consolidated balance sheet of the Company as of December 31, 1997, and the related unaudited consolidated statement of income of the Company for the year then ended and (b) the unaudited consolidated balance sheet of the Company as of July 31, 1998 (a true, complete and accurate copy of which is included in the Disclosure Schedule), and the related unaudited consolidated statement of income for the interim period from January 1, 1998 through July 31, 1998 (together the "Financial Statements"). The Financial Statements fairly present (i) the financial position of the Company as of the date of the Financial Statements and (ii) the results of the operations of the Company for the fiscal period ended on such date, all in conformity with generally

accepted accounting principles applied on a consistent basis with prior periods (except as otherwise stated therein or in the notes thereto) throughout the period involved. The Company owns no stock or any other equity interest in any other corporation, association or business entity and is not a party to any joint venture or partnership agreement. There are no liabilities, contingent or otherwise, of the Company not reflected in the Financial Statements or the Disclosure Schedule.

6.6 No Adverse Changes. Except as disclosed in the Disclosure Schedule, since July 31, 1998 there has been (a) no change in (i) the assets, liabilities or financial condition of the Company from that set forth in the Financial Statements or (ii) the condition (other than financial) or business of the Company, other than, with respect to clauses (i) and (ii) hereof, changes in the ordinary course of business the effect of which changes has not caused, individually or in the aggregate, a Material Adverse Effect, (b) no damage, destruction or loss, whether or not covered by insurance, having a Material Adverse Effect, (c) no labor dispute, other than routine grievances by individual employees, that has caused, individually or in the aggregate, a Material Adverse Effect, (d) no declaration or payment by the Company of any dividend or other distribution, in cash or property or other assets, (e) no transfer of any Intellectual Property Rights, (f) no mortgage or pledge of any assets of the Company, (g) no contractual obligation entered into by the Company providing for obligations of a party thereto of \$10,000 or more, (h) no agreement by the Company to borrow money or incur or guarantee indebtedness, or (i) no notice received regarding the termination or cancellation of any contract, to which the Company is a party.

6.7 Title to Properties. The Company has good and indefeasible title to all of its real properties purported to be owned in fee, and good and merchantable title to all of its other material properties and assets, real and personal, reflected in the Financial Statements, or purported to have been acquired after such date (excepting, however, property and other assets, in the aggregate not material to the Company, sold or otherwise disposed of subsequent to such date in the ordinary course of business), free of any mortgage, pledge, lien, charge, security interest or other encumbrance, subordination or adverse claim, except as reflected in the Financial Statements, disclosed in the Disclosure Schedule or for such imperfections of title and encumbrances as do not individually or in the aggregate materially detract from the value of such property or impair the business or property of the Company. The Company enjoys peaceful and undisturbed possession under all permits or leases under which it is operating, and all such leases are valid, subsisting and in full force and effect. The Company has not been advised of a breach of any such permit or lease and there is no basis for any such breach to be threatened.

6.8 Litigation, Judgments, Etc. There are no actions, claims, suits, investigations or proceedings to which the Company is a party pending or, to the Knowledge of the Company, threatened in any court or before or by any federal, state or other governmental department, commission, agency or other instrumentality (excluding any rulemaking, investigation or similar proceeding of general applicability and any appeal or petition for review relating thereto), or before any arbitrator, that may have a Material Adverse Effect or which seeks to prohibit, restrict or delay consummation of the transactions contemplated hereby. The Company is not in default with respect

to any judgment, order, writ, injunction, decree or award applicable to it of any court or other governmental instrumentality or arbitrator having jurisdiction over it. The Company has all permits, certificates, licenses, approvals, and other authorizations which are required in connection with the operation of its business, all such permits, certificates, licenses, approvals and other authorizations are in full force and effect and there is no basis for any breach thereof to be threatened. The Company is exercising reasonable efforts, to the extent customary in its businesses, to comply with all statutes, rules and regulations applicable to it of governmental authorities having jurisdiction over it, and is not in violation of or in default with respect to any statute, or any rule or regulation applicable to it of any governmental authority having jurisdiction over it, which violation or default individually or in the aggregate may have a Material Adverse Effect.

6.9 Intellectual Property Rights. The Disclosure Schedule sets forth a list of all patents, patent applications, trademarks (whether registered or not), trademark applications, trade names, copyrights, patent or know-how licenses (wherein the Company is either licensee or licensor), used in the ordinary course of business of the Company (the "Intellectual Property Rights"). The Intellectual Property Rights are owned, lawfully possessed or used by the Company. No past due royalties or other payments subsequent to the date hereof are or will be required to be paid to any person, firm or corporation who is the licensor under any license agreements as they presently exist. The Company is not in default in any material respect of any obligation with respect to any agreement with others concerning the Intellectual Property Rights. To the Knowledge of the Company: (i) there is no existing or threatened infringement, misuse or misappropriation by others

of the Intellectual Property Rights; (ii) there is no pending or threatened claim by the Company against others for any such infringement, misuse or misappropriation and there is no pending judicial proceeding involving any claim; and (iii) the Company has not received any written notice or claim of any infringement, misuse or misappropriation by the Company of any patent, trademark, trade name, copyright, intellectual property rights license or similar right owned by any third party.

6.10 Contractual Obligations.

(A) Except as disclosed in the Disclosure Schedule or the Financial Statements, the Company is not a party to any of the following, whether written or oral:

- (i) express or implied contract for the employment of any individual employee that cannot be terminated by the Company without penalty within 30 days;
 - (ii) collective bargaining agreement or other contract with any labor union;
 - (iii) lease under which it is the lessee of real or personal property which lease (a) is not terminable without penalty on less than 30 days' notice and (b) provides for annual base rental payments in excess of \$10,000;
 - (iv) contract for the future purchase or sale of materials, supplies, equipment or services that is not terminable without penalty on less than 30 days' notice;
 - (v) agreement that purports to limit its freedom to compete in any line of business or in any geographic area or to borrow money or incur or guarantee indebtedness;
- and

(vi) tax sharing agreement that will survive the date hereof.

(B) Except as disclosed in the Disclosure Schedule, the Company is not a party to any written or oral contract relating to the borrowing of money or the guaranty of any obligation for the borrowing of money, or policy of insurance that will not terminate upon the Merger.

(C) The Company is not, and upon consummation of the transactions contemplated hereby will not be, in default, or but for a requirement that notice be given or that a period of time elapse or both, would be in default, under any contract, agreement, lease or other instrument to which it is a party or by which it or its properties is bound which default may have a Material Adverse Effect.

(D) The Company has no Knowledge of any default in any obligation to be performed by any party to any material contract to which the Company is a party.

6.11 Taxes.

(A) All returns of Taxes, information and other reports required to be filed in any jurisdiction by the Company (collectively, "Tax Returns") have been timely filed and all such Tax Returns are true, correct and complete in all material respects. All Taxes applicable to the Company or any of its properties which are due and payable have been paid or provided for. The Company has no Knowledge of any proposed assessment of Taxes, interest or penalties against the Company for which adequate provision in accordance with generally accepted accounting principles has not been made in the Financial Statements. The provisions for Taxes in the Financial Statements are adequate for all open years. The Company has not given or been requested to give waivers or

extensions (or is or would be subject to a waiver or extension given by any other entity) of any statute of limitations relating to payment of any Taxes with respect to the Company or for which the Company may be liable. All Taxes that the Company is or was required by law to withhold or collect through the date hereof, have been duly withheld or collected, and, to the extent required, have been paid to the proper taxing authority or other person.

(B) No audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of the Company, nor has the Company received a ruling from the Internal Revenue Service or entered into any agreement regarding Taxes with any taxing authority that may, individually or in the aggregate, have a Material Adverse Effect after the date hereof.

6.12 Employee Benefit Plans.

(A) Except as set forth in the Disclosure Schedule, the Company does not maintain, sponsor, participate in or contribute to, and is not required to contribute to, directly or indirectly, and has no any obligation under:

(i) Any employee benefit plan, employee pension benefit plan, employee welfare benefit plan (including any medical, dental, disability, accident or sickness, salary continuation or life insurance plan or arrangement), or multiemployer plan, all as defined in the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), regardless of whether or not a plan is exempt from some or all of the otherwise applicable requirements of ERISA; or

(ii) Any bonus, deferred compensation, incentive compensation, restricted stock, stock purchase, stock option, stock appreciation right, debenture, supplemental pension, profit sharing, royalty pool, severance or termination pay plan, supplemental unemployment benefits plan, loan guarantee, relocation assistance, employee loan or other extensions of credit, or other similar plan, program, agreement, policy, commitment, arrangement or benefit currently in effect under which current or former employees or their dependents, beneficiaries, representatives or estates are currently or will in the future be entitled to benefits.

(B) With respect to each plan, program, policy or benefit referred to in the Disclosure Schedule (each, a "Benefit Plan"):

(i) Each Benefit Plan has been operated and administered in accordance with its terms and applicable laws, including but not limited to ERISA and the Internal Revenue Code of 1986, as amended (the "Code"). Each Benefit Plan that is intended to be qualified under the Code either has received from the Internal Revenue Service, or timely applied for, a determination letter on such Benefit Plan's qualified status.

(ii) Neither the Company nor any other party in interest (within the meaning of ERISA) has engaged in any non-exempt prohibited transaction with respect to any Benefit Plan under ERISA, the Code, and, to the Knowledge of the Company, there is no pending assertion of the occurrence of any such transaction.

(iii) All contributions required under applicable law or the terms of any Benefit Plan, collective bargaining agreement or other agreement relating to a Benefit Plan to be paid by the Company for all periods prior to the date hereof have been completely and timely made to each Benefit Plan when due, and the Company has established adequate reserves on its books to meet liabilities for contributions accrued but that have not been made because they are not yet due and payable.

(iv) There is no current or pending investigation or audit by the Internal Revenue Service, the Department of Labor or any other governmental entity of any Benefit Plan, nor has the Company received notification from any such governmental entity of such a pending audit or investigation, and there are no actions, suits or claims pending (other than routine claims for benefits) or threatened, with respect to any Benefit Plan or against the assets of any such Benefit Plan.

(v) No Benefit Plan is or ever has been a plan subject to Title IV of ERISA, Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code or is or ever has been a multiemployer plan as defined in Section 3(37) of ERISA or Section 414(f) of the Code.

(vi) The Company has substantially complied with all notice and continuation coverage requirements applicable to group health plans under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), with respect to all medical and health benefits provided by the Company that are subject to COBRA.

(C) There are no members of a "controlled group" of organizations (as defined in Section 414(b), (c), (m) or (o) of the Code) with the Company which sponsor or maintain any employee benefit plan within the meaning of Section 3(3) of ERISA which under Title IV of ERISA or any section of the Code or ERISA would subject the Company or any of its employee benefit plans or the fiduciaries thereof or their respective assets to any taxes, encumbrances, penalties or other liabilities.

6.13 Charter Documents. The Company has delivered to Subsidiary complete, true and accurate copies of the charter documents and bylaws of the Company as currently in effect.

6.14 Insurance. The Disclosure Schedule sets forth the issuers of and the amounts of coverage of all insurance policies which are owned by the Company and complete, true and accurate copies of such policies have been supplied to Subsidiary. All of such insurance policies are in full force and effect.

6.15 Environmental Matters.

(A) Except as set forth in the Disclosure Schedule, (i) the Company has obtained all Environmental Permits that are required in connection with the business, operations and properties of such Company, (ii) the Company has been, and the Company is, in compliance with all terms and conditions of all applicable requirements of Environmental Law and Environmental Permits, (iii) the Company has not received any written notice from a governmental authority of any violation, alleged violation, or liability arising under any requirements of Environmental Law or Environmental Permits, (iv) no Environmental Claims have ever been threatened or asserted or are

presently pending against the Company attributable to present or past operations on premises owned, leased or operated by the Company, and (v) no condition or set of facts or circumstances exists that could reasonably be expected to give rise to an Environmental Claim against the Company.

(B) Except as set forth in the Disclosure Schedule, the Company has not disposed, treated, or arranged for the disposal or treatment of any toxic or hazardous waste, materials or substances at a site or location, or has leased, used, operated or owned a site or location which (i) has been placed on the National Priorities List or its state equivalent pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, as amended ("CERCLA"), or similar foreign, territorial or state law, (ii) the Environmental Protection Agency or relevant foreign, territorial or state authority has proposed, or is proposing, to place on the National Priorities List or foreign, territorial or state equivalent, (iii) is subject to a lien, administrative order or other demand either to take response or other action under CERCLA or other Environmental Law, or to develop or implement a "Corrective Action Plan" or "Compliance Plan," as each is defined in regulations promulgated pursuant to the Resource Conservation and Recovery Act, as amended, or to reimburse any person who has taken response or other action in connection with that site, (iv) is on any Comprehensive Environmental Response Compensation Liability Information System List, (v) has been the site of any Release from present or past operations of the Company (or any of their predecessors) which would be either reportable under any requirements of Environmental Law or which has caused at such site or any third party site any condition that has resulted in or could reasonably be expected to result in a claim against the Company under Environmental Law, or (vi)

to the Knowledge of the Company, is located within one mile of a property described in any of subclauses (i) through (iv) above.

(C) Except as set forth in the Disclosure Schedule, (i) the Company has never owned or operated any underground storage tanks (USTs) containing petroleum products or wastes or other substances regulated by 40 CFR Part 280 or other applicable requirements of Environmental Law, and has not owned or operated any real estate having any USTs, (ii) there are no polychlorinated biphenyl or asbestos in or on premises currently owned, leased or operated by the Company, and (iii) no entities or sites owned or operated by third parties have been used by the Company in connection with the treatment, storage, disposal or transportation of Hazardous Substances, except in compliance with applicable Environmental Law and except for such violations that have been remedied.

(D) Except as set forth in the Disclosure Schedule, the plants, structures, equipment and other properties currently owned or used by the Company are adequate and sufficient for the current operations of the Company in conformance with all applicable requirements of Environmental Law.

6.16 Personnel. The Disclosure Schedule sets forth a list of all officers, directors, employees, and consultants and agents with whom the Company has agreements not terminable at the will of the Company (by type or classification) and their respective rates of compensation (including the portions thereof attributable to bonuses), including any other salary, bonus or other payment arrangement made with any of them.

6.17 Accounts and Notes Receivable. All accounts receivable of the Company are (a) bona fide claims against debtors for work performed or other charges, (b) to the Knowledge of the Company, subject to no defenses, set-offs or counterclaims, and (c) collectible subject to the Company's normal reserve for bad debts. The Disclosure Schedule sets forth an accurate list of all notes receivable of the Company not shown in the Financial Statements.

6.18 Condition of Assets. Since July 31, 1998, the Company has operated, maintained and repaired its tangible assets in the ordinary course of business in a manner consistent with past practice. Such assets are capable of being used without the present need for repair or replacement except in the ordinary course of business in a manner consistent with the Company's past practice. Complete and accurate details of such assets are set forth in the Disclosure Schedule.

6.19 Real Property. The Company's ownership and use of its real properties and the location, construction, occupancy, operation and use thereof are in compliance with (a) all applicable laws, rules and regulations of any governmental authority (including, without limitation, those regulating the environment, health and safety), (b) all applicable decrees, orders, injunctions and other decisions of any court, arbitrator, governmental authority or administrative agency with jurisdiction over the Company, (c) all leases, easements, rights-of-way and other instruments creating or establishing any rights over such properties, and (d) all agreements, contracts, leases, deed restrictions and restrictive covenants, whether or not recorded in the public records, affecting the same. None of such real properties is located on or within the immediate vicinity of any waste management facility or fault line. None of such real properties has been condemned, requisitioned

or otherwise taken by any governmental authority, and no such condemnation, requisition or other taking is pending or, to the Knowledge of the Company, contemplated.

6.20 Accurate and Complete Records. Except as set forth in the Disclosure Schedule, the books, ledgers, financial records and other records of the Company for the period of time which is not less than three years prior to the date hereof or any such longer period as may be required by applicable laws or regulations:

(a) are in the possession of the Company;

(b) have been, in all material respects, maintained in accordance with all applicable laws, rules and regulations and generally accepted standards of practice;
and

(c) are accurate and complete and do not contain or reflect any material discrepancies.

6.21 Brokerage Arrangements. The Company has not entered (directly or indirectly) into any agreement with any person, firm or corporation that would obligate Subsidiary or the Company to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated herein.

6.22 No Misleading Statements. The representations and warranties of the Company contained in this Agreement, the Disclosure Schedule and all other documents and information furnished to Subsidiary and its representatives pursuant hereto are complete and accurate and do not

and will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made not misleading.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES OF PARENT

Parent hereby represents and warrants to the Company as follows:

7.1 Corporate Organization, Good Standing, and Capitalization. Parent is a corporation duly organized, validly existing, and in good standing under the laws of the Commonwealth of Pennsylvania, with the requisite corporate power to own, operate and lease its properties and to carry on its business as presently conducted, except where failure to do so would not, individually or in the aggregate, have a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole.

7.2 Corporate Authority. Parent has authority to execute and deliver this Agreement. Neither the execution and delivery of this Agreement, nor performance hereunder, will conflict with, or result in a breach of the terms, conditions, or provisions of, or constitute a default under, the Certificate of Incorporation or bylaws of Parent or any material agreement or instrument to which Parent is a party or by which it is bound, except for breaches or defaults which would not, individually or in the aggregate, have a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole.

7.3 SEC Reports. Parent has filed with the Securities and Exchange Commission, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1997 under the Securities Exchange Act of 1934, as amended (as such documents have been amended since the time of each filing).

7.4 Shares To Be Issued. The shares of Parent Preferred Stock to be issued and delivered pursuant to this Agreement will be duly authorized and validly issued, fully paid and nonassessable.

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES OF SUBSIDIARY

Subsidiary hereby represents and warrants to the Company as follows:

8.1 Organization. Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas with corporate power to carry on its business as now being conducted.

8.2 Power and Authority; Enforceability. Subsidiary has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by Subsidiary in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by Subsidiary in connection with the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered on behalf of Subsidiary and, assuming due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of Subsidiary enforceable in accordance with its terms, except that (a) such enforcement may be limited

by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

8.3 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein (a) conflict with or result in (or with giving of notice or passage of time would result in) a breach, default or violation of (i) any of the terms, provisions or conditions of the charter or bylaws of Subsidiary or (ii) any material agreement, document, instrument, judgment, decree, order governmental permit, certificate or license to which Subsidiary is a party or to which it is subject or by which its property is bound, or (b) result in the creation of any lien, charge or other encumbrance on any material property of Subsidiary, or (c) require Subsidiary to obtain the consent of any private non-governmental third party. Except for the Regulatory Consent, no consent, action, approval or authorization of, or registration, declaration or filing with, any governmental department, commission, agency or other instrumentality having jurisdiction over Subsidiary is required by Subsidiary to authorize the execution and delivery of this Agreement by Subsidiary or the performance of its terms by Subsidiary.

ARTICLE IX

AGREEMENTS PRIOR TO CLOSING

From the date of this Agreement through the Closing:

9.1 Access. The Company shall keep Subsidiary informed regarding the continuing operation of the business of the Company and the Company shall permit Subsidiary and its authorized employees, agents, accountants, legal counsel and other representatives to have access to the books, records, plants, facilities, properties, personnel and officers of the Company for the purpose of conducting an investigation of its financial condition, corporate status, business properties and assets; provided, however that such investigation shall be conducted in a manner that does not interfere with normal operations of the Company.

9.2 Restrictions. Except as otherwise contemplated in this Agreement or with the consent of Subsidiaries, the Company will not:

- (a) increase the rate or form of compensation payable to any employee or increase any employee benefits, except increases in compensation and benefit changes made in the ordinary course of business in accordance with established policies and past practice;
- (b) declare or pay any dividend or make a distribution in cash, property or other assets (not including distributions in the ordinary course of business of cash in the course of paying obligations owed by the Company);
- (c) acquire or dispose of any properties or assets, except in the ordinary course of business;

(d) engage in any one or more activities or transactions outside the ordinary course of business;

(e) transfer any Intellectual Property Rights, except in the ordinary course of business;

(f) create, incur, assume, guarantee or otherwise become liable or obligated with respect to any indebtedness, or make any loan or advance to, or any investment in, any person or entity;

(g) except in emergency situations, enter into a contractual obligation providing for obligations of a party thereto of \$1,000 or more;

(h) file any motions, orders, briefs, settlement agreements or other papers in any proceeding before any court of any federal, state or other governmental department, commission or agency or any arbitrator except with respect to pending proceedings where positions advanced are substantially consistent with previous positions;

(i) issue any securities relating to its capital stock; grant, or enter into any agreement to grant, any options, convertibility rights, other rights, warrants, calls or agreements relating to its capital stock; or redeem, repurchase or otherwise reacquire any of its capital stock;

(j) maintain its books of account other than in the usual, regular and ordinary manner and on a basis consistent with prior periods or make any change in any of its accounting methods or practices;

(k) allow the expiration, termination or cancellation of any of the insurance policies listed in the Disclosure Schedule, unless it is replaced, with no loss of coverage, by a comparable insurance policy; or

(l) agree or commit to do any of the foregoing.

9.3 Regulatory Compliance. Prior to the Closing, the Company will comply in all material respects with all applicable local, state and federal laws, rules and regulations, judgments, decrees, orders, governmental permits, certificates and licenses, including without limitation those relating to the filing of reports and the payment of income, franchise and other taxes due to be paid prior to the Closing.

9.4 Continued Operation of Business. Prior to the Closing, the Company will, to the extent required for continued operation of its business without impairment, use reasonable business efforts, (a) to preserve substantially intact its business organization, (b) to keep available the services of its employees, and (c) to preserve its present relationships with persons having significant business relations therewith.

9.5 Reasonable Business Efforts. Subsidiary and the Company shall use their reasonable business efforts to ensure that all of the conditions to the obligations of the Company and Subsidiary contained in Sections 10.2 and 10.3 respectively are satisfied timely (unless waived in accordance with Article X). Subsidiary and the Company shall cooperate to the maximum extent possible on all regulatory requirements to obtain the Regulatory Consent.

ARTICLE X

CLOSING

10.1 Closing. The Closing shall be held at the offices of Bracewell & Patterson, L.L.P. located at 711 Louisiana Street, Suite 2900, Houston, Texas 77002-2782 at 11:00 a.m. after fulfillment of the conditions set out in Section 10.2 and 10.3.

10.2 Closing Obligations of Subsidiary and Parent. The obligation of Subsidiary and Parent to consummate the transactions contemplated by this Agreement is subject, at the option of Subsidiary and Parent, to the satisfaction or waiver of the following conditions:

(a) Resolutions of the Company. The Company shall furnish Subsidiary with certified copies of resolutions duly adopted by (i) the Board of Directors of the Company authorizing the execution, delivery and performance of this Agreement, and (ii) the shareholders of the Company approving the plan of merger as required by Missouri Revised Statutes § § 351.410, *et seq.*;

(b) The Company's Corporate Documents. The Company shall deliver to Subsidiary the Stock and Minute Books and Corporate Seal of the Company, certified copies of the certificate of incorporation and bylaws of the Company and certificates of good standing from the state of incorporation of the Company and all states where it is qualified to do business as a foreign corporation;

(c) Stock Certificates. Each shareholder of the Company shall surrender such shareholder's Company's stock certificates to Subsidiary and shall receive a receipt

evidencing the number of shares of Preferred Stock being held by the transfer agent on his behalf;

(d) Escrow Agreement. The shareholders of the Company shall execute the Escrow Agreement;

(e) Directors and Officers. The shareholders of the Company shall furnish Subsidiary with written resignations of all directors and officers of the Company in form reasonably acceptable to Subsidiary;

(f) Statutory Compliance. All statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained;

(g) No Action, Suit, etc. No action, suit or proceeding shall have been commenced, pending or threatened, and no statute, rule, regulation or order shall have been proposed, enacted, promulgated or issued or deemed applicable to the transactions contemplated by this Agreement, by any United States federal or state government or governmental agency or instrumentality or court or private non-governmental person or entity, which, in the opinion of Subsidiary's counsel, reasonably may be expected to, (i) prohibit Subsidiary's ownership or operation of all or a material portion of Subsidiary's or the Company's business or assets, or compel Subsidiary to dispose of or hold separate all or a material portion of Subsidiary's or the Company's business or assets, as a result of the

transactions contemplated by this Agreement or (ii) render Subsidiary unable to consummate the transactions contemplated by this Agreement;

(h) Due Diligence. The completion of a Phase I Report regarding the facilities of the Company and, if recommended, the completion of a Phase II Report, each performed pursuant to ASTM Protocol, and the contents of each such report being to the reasonable satisfaction of Subsidiary. The completion by Subsidiary of its due diligence review of the businesses of the Company;

(i) Consummation of Transactions. The transactions contemplated by the Merger Agreements shall have been consummated.

(j) Acquisition of Shares. Shares of the Company owned by Charles Heidelberg shall have been acquired by Subsidiary or an affiliate of Subsidiary.

10.3 Closing Obligations of the Company. The obligation of the Company to consummate the transactions contemplated by this Agreement is subject, at the option of the Company, to the satisfaction or waiver of the following conditions:

(a) Resolutions of Subsidiary. Subsidiary shall furnish the Company with certified copies of resolutions duly adopted by the Board of Directors of Subsidiary authorizing the execution, delivery and performance of this Agreement;

(b) Subsidiary's Corporate Documents. Subsidiary shall furnish the Company with certified copies of the articles of incorporation and bylaws of Subsidiary;

(c) Escrow Agreement. Subsidiary, AquaSource/CU, Inc., AquaSource/RU, Inc. and AquaSource, Inc. shall execute the Escrow Agreement;

(d) Promissory Notes. The amounts outstanding on the Promissory Notes shall be repaid and the guarantees of the shareholders of the Company relating thereto shall be released;

(e) Statutory Compliance. All statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained.

(f) No Action, Suit, etc. No action, suit or proceeding shall have been commenced, pending or threatened, and no statute, rule, regulation or order shall have been proposed, enacted, promulgated or issued or deemed applicable to the transactions contemplated by this Agreement, by any United States federal or state government or governmental agency or instrumentality or court or private non-governmental person or entity, which, in the opinion of the Company's counsel, reasonably may be expected to render the Company unable to consummate the transactions contemplated by this Agreement; and

(g) Consummation of Transactions. The transactions contemplated by the Merger Agreements shall have been consummated.

ARTICLE XI

EMPLOYEE MATTERS

11.1 Status of Employees. After the Effective Time of the Merger any continued employment of the employees of the Company shall be on such terms and conditions and include such benefits as the Target Company shall deem appropriate in its sole and unlimited discretion.

ARTICLE XII

MISCELLANEOUS

12.1 Notice. Any notice, request, instruction, correspondence or other document required to be given hereunder by any party to another (herein collectively called "Notice") shall be in writing and delivered in person or by courier service requiring acknowledgment of delivery or mailed by certified mail, postage prepaid and return receipt requested, or by telecopier, as follows:

If to Subsidiary, addressed to:

AquaSource, Inc.
16810 Barker Springs, Suite B215
Houston, Texas 77084
Attention: Mr. Edward R. Wallace
Telecopier No. (281) 578-1620

With a copy to:
AquaSource/FU, Inc.
916 Congress, Suite 200
Austin, Texas 78701
Attention: Mr. Richard Zieren
Telecopier No.: (512) 320-8387

If to Parent, addressed to:

DQE, Inc.
Box 68
Pittsburgh, Pennsylvania 15230-0068
Attention: Mr. Victor A. Roque
Telecopier No.: (412) 393-6055

If to the Company, addressed to:

Foxfire Utility Company
312 Lafayette
Jefferson City, Missouri 63089
Attention: Mr. Garah F. Helms
Telecopier No.: (573) 635-2157

With a copy to:
Ms. Ann Monaco Warren
Inglisch & Monaco
237 E. High Street
P.O. Box 67
Jefferson City, Missouri 65102

Notice given by personal delivery or courier service shall be effective upon actual receipt. Notice given by mail shall be effective five days after deposit with the United States postal service. Notice given by telecopier shall be confirmed by appropriate answer back and shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if received before the recipient's normal business hours. All Notices by telecopier shall be confirmed promptly after transmission in writing by regular mail or personal delivery. Any party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

12.2 Public Statements. No party shall issue any public announcement or statement with respect to the transactions contemplated hereby for a period of twelve months following the date hereof without the written consent of the other parties.

12.3 Further Assistance. The Company shall execute and deliver without additional expense to Subsidiary such additional documents as are reasonably necessary to consummate the Merger.

12.4 Governing Law. The provisions of this Agreement and the documents delivered pursuant hereto shall be governed by and construed and enforced in accordance with the laws of the State of Missouri.

12.5 Entire Agreement; Amendments and Waivers. This Agreement, together with all schedules and exhibits attached hereto, constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

12.6 Severability. If any one or more of the provisions contained in this Agreement or in any other document delivered pursuant hereto shall, for any reason, be held to be invalid, illegal or

unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement or any other such document.

12.7 Headings and Exhibits. The headings of the several Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement. The schedules and exhibits referred to herein are attached hereto and incorporated herein by this reference.

12.8 Successors Bound; Third Parties. This Agreement may not be assigned by any party without the consent of the other parties. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended to confer upon any person or entity other than the parties hereto and their respective permitted successors and assigns, any liabilities, duties, rights, benefits or obligations hereunder.

12.9 Multiple Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[The remainder of this page has been intentionally left blank.]

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts,
all as of the date first above written.

FOXFIRE UTILITY COMPANY

By: _____
Name: _____
Title: _____

DQE, INC.

By: _____
Donald J. Clayton, Vice President and Treasurer

AQUASOURCE/FU, INC.

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts,
all as of the date first above written.

FOXFIRE UTILITY COMPANY

By: _____
Name: _____
Title: _____

DQE, INC.

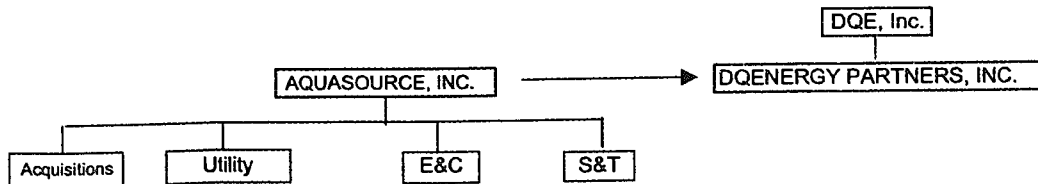
By: _____
Donald J. Clayton, Vice President and Treasurer

AQUASOURCE/FU, INC.

By: _____
Name: _____
Title: _____

EXHIBIT 3

[1] Before Establishment of New Subsidiary:



Key: Legal Entities

Acquisitions - AquaSource Acquisitions, Inc.
Utility - AquaSource Utility Inc.
E&C - AquaSource Engineering and Construction, Inc.
S&T - AquaSource Services and Technologies, Inc.

EXHIBIT 3

[4] After Acquisition:

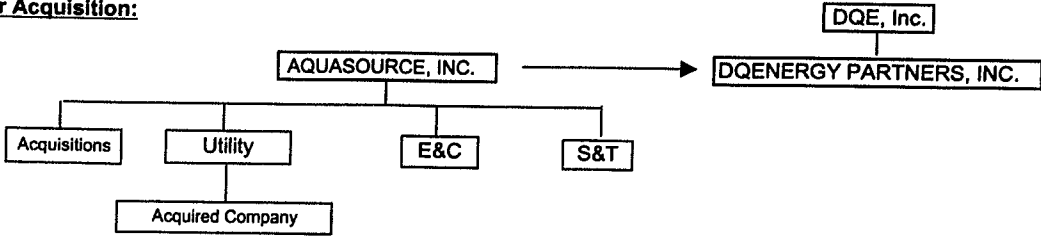


EXHIBIT 3

[2] After Establishment of New Subsidiary:

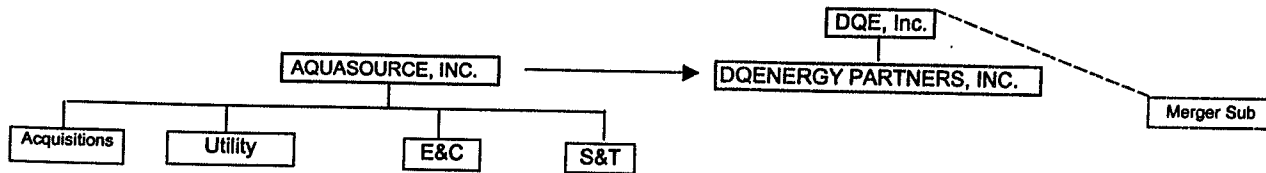
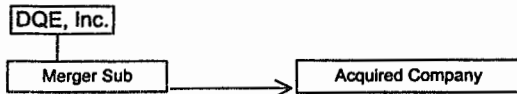


EXHIBIT 3

[3] Acquisition Date:



shares of merged entity are contributed from DQE, Inc. to AquaSource, Inc., and AquaSource, Inc. contributes to AquaSource Utility, Inc.

**CERTIFICATE OF ASSISTANT SECRETARY
AQUASOURCE/CU, INC.**

STATE OF TEXAS §
 §
COUNTY OF HARRIS §


I, Linda Law, being first duly sworn, depose and state as follows:

I am the duly elected Assistant Secretary of AquaSource/CU, Inc. with offices in Houston, Texas

I hereby certify that the attached Resolutions were adopted by the Board of Directors of AquaSource/CU, Inc. at a regular meeting of the Board of Directors held on October 30, 1998, at which a quorum was present, and that such Resolutions have not been altered, amended or rescinded, and remain in effect as of the date hereof.

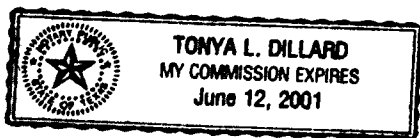
DATED at Houston, Texas, this 30th day of October, 1998.

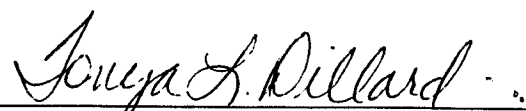
AQUASOURCE/CU, INC.



Linda Law
Assistant Secretary

SUBSCRIBED and sworn to before me this 30th day of October, 1998.





Notary Public

My Commission Expires:

**WRITTEN CONSENT
OF THE SOLE DIRECTOR OF
AQUASOURCE/CU, INC.
PURSUANT TO ARTICLE 9.10.B OF
THE TEXAS BUSINESS CORPORATION ACT**

THE UNDERSIGNED, being the sole Director of AquaSource/CU, Inc., a Texas corporation (the "Company"), and being entitled to vote upon the recitals and resolutions set forth below as if the same had been submitted at a formal meeting of the Board of Directors of the Company duly called and held for the purpose of acting upon such recitals and resolutions, does hereby consent that the following recitals and resolutions are deemed to be adopted to the same extent and to have the same force and effect as if such recitals and resolutions were adopted by unanimous vote at a special meeting of the Board of Directors duly called and held for the purposes of acting upon proposals to adopt such recitals and resolutions.

RESOLVED, that the Agreement and Plan of Merger by and among the Company, DQE, Inc., a Pennsylvania Corporation and Capital Utilities, Inc., a Missouri corporation and the Agreement of Shareholders and Indemnity Agreement among the Company, DQE, Inc., AquaSource/FU, Inc., a Texas corporation, AquaSource/RU, Inc., a Texas corporation, Garah F. Helms and Joy L. Helms and the Escrow Agreement by and among the Company, AquaSource/FU, Inc., AquaSource/RU, Inc., Garah F. Helms, Joy L. Helms and AquaSource, Inc., a Delaware corporation (together the "Agreements"), substantially in the forms reviewed by the Board of Directors are hereby adopted and approved; and further

RESOLVED, that the appropriate officers of the Company are hereby authorized to execute and deliver the Agreements, with such changes therein as the officer executing same shall approve, and the Company is authorized to perform its obligations under the Agreements upon such execution; and further

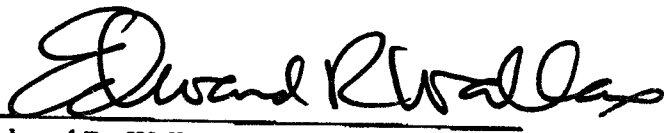
RESOLVED, that the Plan of Merger in the form reviewed by the Board of Directors be submitted to the sole shareholder of the Company for its consideration and approval; and further

RESOLVED, that the President or any other appropriate officer of the Company, is hereby authorized and empowered to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, any and all notices and certificates required or permitted to be given under the terms of any of the instruments executed on behalf of the Company in connection with the foregoing resolutions), in the name and on behalf of the Company or otherwise, as any of said officers, in their discretion, may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of the Company under all instruments executed on behalf of the Company in connection with the foregoing resolutions; and further

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RESOLVED, that all acts, transactions, or agreements undertaken prior to the adoption of the foregoing resolutions by any of the officers or representatives of the Company in its name and for its account in connection with the foregoing matters are hereby ratified, confirmed and adopted by the Company.

Dated and effective as of 30 October 1998.


Edward R. Wallace

**CERTIFICATE OF ASSISTANT SECRETARY
AQUASOURCE/RU, INC.**

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

I, Linda Law, being first duly sworn, depose and state as follows:

I am the duly elected Assistant Secretary of AquaSource/RU, Inc. with offices in Houston, Texas

I hereby certify that the attached Resolutions were adopted by the Board of Directors of AquaSource/RU, Inc. at a regular meeting of the Board of Directors held on October 30, 1998, at which a quorum was present, and that such Resolutions have not been altered, amended or rescinded, and remain in effect as of the date hereof.

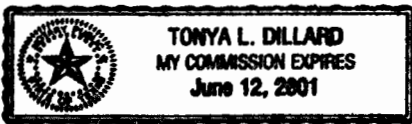
DATED at Houston, Texas, this 30th day of October, 1998.

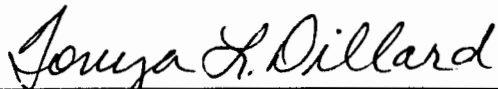
AQUASOURCE/RU, INC.



Linda Law
Assistant Secretary

SUBSCRIBED and sworn to before me this 30th day of October, 1998.





Notary Public

My Commission Expires:

**WRITTEN CONSENT
OF THE SOLE DIRECTOR OF
AQUASOURCE/RU, INC.
PURSUANT TO ARTICLE 9.10.B OF
THE TEXAS BUSINESS CORPORATION ACT**

THE UNDERSIGNED, being the sole Director of AquaSource/RU, Inc., a Texas corporation (the "Company"), and being entitled to vote upon the recitals and resolutions set forth below as if the same had been submitted at a formal meeting of the Board of Directors of the Company duly called and held for the purpose of acting upon such recitals and resolutions, does hereby consent that the following recitals and resolutions are deemed to be adopted to the same extent and to have the same force and effect as if such recitals and resolutions were adopted by unanimous vote at a special meeting of the Board of Directors duly called and held for the purposes of acting upon proposals to adopt such recitals and resolutions.

RESOLVED, that the Agreement and Plan of Merger by and among the Company, DQE, Inc., a Pennsylvania Corporation and Riverside Utility Company, a Missouri corporation, and the Agreement of Shareholders and Indemnity Agreement among the Company, DQE, Inc., AquaSource/FU, Inc., a Texas corporation, AquaSource/CU, Inc., a Texas corporation, Garah F. Helms and Joy L. Helms and the Escrow Agreement by and among the Company, AquaSource/FU, Inc., AquaSource/CU, Inc., Garah F. Helms, Joy L. Helms and AquaSource, Inc., a Delaware corporation (together the "Agreements"), substantially in the forms reviewed by the Board of Directors are hereby adopted and approved; and further

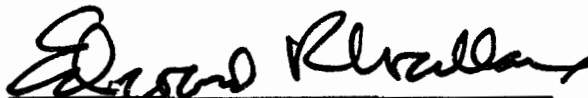
RESOLVED, that the appropriate officers of the Company are hereby authorized to execute and deliver the Agreements, with such changes therein as the officer executing same shall approve, and the Company is authorized to perform its obligations under the Agreements upon such execution; and further

RESOLVED, that the Plan of Merger in the form reviewed by the Board of Directors be submitted to the sole shareholder of the Company for its consideration and approval; and further

RESOLVED, that the President or any other appropriate officer of the Company, is hereby authorized and empowered to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, any and all notices and certificates required or permitted to be given under the terms of any of the instruments executed on behalf of the Company in connection with the foregoing resolutions), in the name and on behalf of the Company or otherwise, as any of said officers, in their discretion, may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of the Company under all instruments executed on behalf of the Company in connection with the foregoing resolutions; and further

RESOLVED, that all acts, transactions, or agreements undertaken prior to the adoption of the foregoing resolutions by any of the officers or representatives of the Company in its name and for its account in connection with the foregoing matters are hereby ratified, confirmed and adopted by the Company.

Dated and effective as of 30 October 1998.



Edward R. Wallace

**CERTIFICATE OF ASSISTANT SECRETARY
AQUASOURCE/FU, INC.**

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

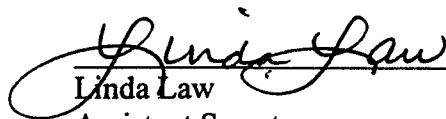
I, Linda Law, being first duly sworn, depose and state as follows:

I am the duly elected Assistant Secretary of AquaSource/FU, Inc. with offices in Houston, Texas

I hereby certify that the attached Resolutions were adopted by the Board of Directors of AquaSource/FU, Inc. at a regular meeting of the Board of Directors held on October 30, 1998, at which a quorum was present, and that such Resolutions have not been altered, amended or rescinded, and remain in effect as of the date hereof.

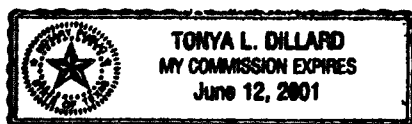
DATED at Houston, Texas, this 30th day of October, 1998.


AQUASOURCE/FU, INC.



Linda Law
Assistant Secretary

SUBSCRIBED and sworn to before me this 30th day of October, 1998.





Notary Public

My Commission Expires:

**WRITTEN CONSENT
OF THE SOLE DIRECTOR OF
AQUASOURCE/FU, INC.
PURSUANT TO ARTICLE 9.10.B OF
THE TEXAS BUSINESS CORPORATION ACT**

THE UNDERSIGNED, being the sole Director of AquaSource/FU, Inc., a Texas corporation (the "Company"), and being entitled to vote upon the recitals and resolutions set forth below as if the same had been submitted at a formal meeting of the Board of Directors of the Company duly called and held for the purpose of acting upon such recitals and resolutions, does hereby consent that the following recitals and resolutions are deemed to be adopted to the same extent and to have the same force and effect as if such recitals and resolutions were adopted by unanimous vote at a special meeting of the Board of Directors duly called and held for the purposes of acting upon proposals to adopt such recitals and resolutions.

RESOLVED, that the Agreement and Plan of Merger by and among the Company, DQE, Inc., a Pennsylvania Corporation and Foxfire Utility Company, a Missouri corporation and the Agreement of Shareholders and Indemnity Agreement among the Company, DQE, Inc., AquaSource/CU, Inc., a Texas corporation, AquaSource/RU, Inc., a Texas corporation, Garah F. Helms and Joy L. Helms and the Escrow Agreement by and among the Company, AquaSource/CU, Inc., AquaSource/RU, Inc., Garah F. Helms, Joy L. Helms and AquaSource, Inc., a Delaware corporation (together the "Agreements"), substantially in the forms reviewed by the Board of Directors are hereby adopted and approved; and further


RESOLVED, that the appropriate officers of the Company are hereby authorized to execute and deliver the Agreements, with such changes therein as the officer executing same shall approve, and the Company is authorized to perform its obligations under the Agreements upon such execution; and further

RESOLVED, that the Plan of Merger in the form reviewed by the Board of Directors be submitted to the sole shareholder of the Company for its consideration and approval; and further

RESOLVED, that the President or any other appropriate officer of the Company, is hereby authorized and empowered to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, any and all notices and certificates required or permitted to be given under the terms of any of the instruments executed on behalf of the Company in connection with the foregoing resolutions), in the name and on behalf of the Company or otherwise, as any of said officers, in their discretion, may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of the Company under all instruments executed on behalf of the Company in connection with the foregoing resolutions; and further

RESOLVED, that all acts, transactions, or agreements undertaken prior to the adoption of the foregoing resolutions by any of the officers or representatives of the Company in its name and for its account in connection with the foregoing matters are hereby ratified, confirmed and adopted by the Company.

Dated and effective as of 30 October 1998.



Edward R. Wallace

State of Missouri
County of Cole

I, Joy Helms, being first duly sworn, depose and state as follows:

I am the elected secretary of Foxfire Utility Company, Inc. with offices in Jefferson City, Missouri.

I hereby certify that the attached resolution was adopted by the Board of Directors of the above named ccompany at a special meeting of the Board of Directors, held on August 3, 1998 at which a quorum was present, and that such resolution has not been altered, amended or rescinded and remains in effect as of the date hereof.

Dated 11-9-98

Joy L. Helms
Joy L. Helms
Secretary

SUBSCRIBED and sworn to before me this 9th day of November, 1998.

W. A. B. Kennedy
Notary Public

My Commission Expires:

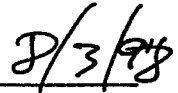
W. A. B. Kennedy
Notary Public, State of Missouri
County of Boone
My Commission Expires 03/11/00

RESOLUTION OF THE BOARD OF DIRECTORS
OF
FOXFIRE UTILITY COMPANY, INC.

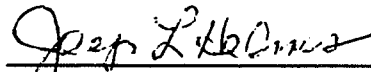
This Resolution of the Board of Directors of Foxfire Utility Company, Inc. authorizes Garah F. (Rick) Helms, President to negotiate with and enter into agreements with AquaSource, Inc. relating to a potential merger/acquisition arrangement.



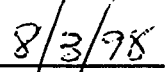
President



Date



Secretary



Date

MINUTES OF SPECIAL MEETING OF THE BOARD OF DIRECTORS
OF
FOXFIRE UTILITY COMPANY, INC.

This Special Meeting of the Board of Directors of Foxfire Utility Company, Inc. was held at 312 Lafayette, Jefferson City, MO. at 1:00 PM on August 3, 1998. In attendance were Garah Helms, Joy Helms and by telephone consultation, Charles Heidelberg.

Business consisted of:


1. Authorization of the President to enter into negotiations and agreements with AquaSource, Inc. regarding a potential merger/acquisition arrangement.

A resolution was drafted to reflect the above.

There being no other business, on motion duly made, seconded and carried, the Meeting was adjourned.



President



Secretary

State of Missouri
County of Cole

I, Joy Helms, being first duly sworn, depose and state as follows:

I am the elected secretary of Capital Utilities, Inc. with offices in Jefferson City, Missouri.

I hereby certify that the attached resolution was adopted by the Board of Directors of the above named ccompany at a special meetingof the Board of Directors, held on August 3, 1998 at which a quorum was present, and that such resolution has not been altered, amended or rescinded and remains in effect as of the date hereof.

Dated 11-9-98

Joy L Helms
Joy L. Helms
Secretary

SUBSCRIBED and sworn to before me this 9th day of November, 1998.

W. A. B. Kennedy
Notary Public

My Commission Expires:

W. A. B. Kennedy
Notary Public, State of Missouri
County of Boone
My Commission Expires 03/11/00

RESOLUTION OF THE BOARD OF DIRECTORS
OF
CAPITAL UTILITIES, INC.

This Resolution of the Board of Directors of Capital Utiliites, Inc. authorizes Garah F. (Rick) Helms, President to negotiate with and enter into agreements with AquaSource, Inc. relating to a potential merger/acquisition arrangement.

G. F. Helms 8/3/98
President Date

J. L. Helms 8/3/98
Secretary Date

MINUTES OF SPECIAL MEETING OF THE BOARD OF DIRECTORS
OF
CAPITAL UTILITIES, INC.

This Special Meeting of the Board of Directors of Capital Utilities, Inc. was held at 312 Lafayette, Jefferson City, MO. at 1:00 PM on August 3, 1998. In attendance were Garah Helms and Joy Helms.

Business consisted of:

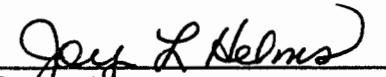
1. Authorization of the President to enter into negotiations and agreements with AquaSource, Inc. regarding a potential merger/acquisition arrangement.

A resolution was drafted to reflect the above.

There being no other business, on motion duly made, seconded and carried, the Meeting was adjourned.



President



Secretary

State of Missouri
County of Cole

I, Joy Helms, being first duly sworn, depose and state as follows:

I am the elected secretary of Riverside Utility Company, Inc. with offices in Jefferson City, Missouri.

I hereby certify that the attached resolution was adopted by the Board of Directors of the above named ccompany at a special meetingof the Board of Directors, held on August 3, 1998 at which a quorum was present, and that such resolution has not been altered, amended or rescinded and remains in effect as of the date hereof.

Dated 11-9-98

Joy L Helms
Joy L. Helms
Secretary

SUBSCRIBED and sworn to before me this 9th day of November, 1998.

W. A. B. Kennedy
Notary Public

My Commission Expires:

W. A. B. Kennedy
Notary Public, State of Missouri
County of Boone
My Commission Expires 03/11/00

RESOLUTION OF THE BOARD OF DIRECTORS
OF
RIVERSIDE UTILITY COMPANY, INC.

This Resolution of the Board of Directors of Riverside Utility Company, Inc. authorizes Garah F. (Rick) Helms, President to negotiate with and enter into agreements with AquaSource, Inc. relating to a potential merger/acquisition arrangement.

G. F. Helms 8/3/98
President Date

J. R. Helms 8/3/98
Secretary Date

MINUTES OF SPECIAL MEETING OF THE BOARD OF DIRECTORS
OF
RIVERSIDE UTILITY COMPANY, INC.

This Special Meeting of the Board of Directors of Riverside Utility Company, Inc. was held at 312 Lafayette, Jefferson City, MO. at 1:00 PM on August 3, 1998. In attendance were Garah Helms and Joy Helms.

Business consisted of:


1. Authorization of the President to enter into negotiations and agreements with AquaSource, Inc. regarding a potential merger/acquisition arrangement.

A resolution was drafted to reflect the above.

There being no other business, on motion duly made, seconded and carried, the Meeting was adjourned.



President



Secretary

PRINT DATE: 10/05/98
PRINT TIME: 11:43 AM

CAPITAL UTILITIES, INC.

PAGE 1

Balance Sheet
AS OF 07/31/98

ASSETS

CURRENT ASSETS

002	CASH	6,369.33
004	CUSTOMER ACCTS RECEIVABLE	42,754.49
005	NOTES RECEIVABLE	6,107.53

TOTAL CURRENT ASSETS 55,231.35

UTILITY PLANT

010	UTILITY PLANT IN SERVICE	1,131,151.73
140	ACCUM DEPR UTIL PLANT SER	397,071.03-
160	UTIL PLANT ACQUISITION AD	114,454.00-

TOTAL UTIL PLANT ASSETS 619,626.70

OTHER ASSETS

900	ACCUM DEFERRED INCOME TAX	2,428.00
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TOTAL ASSETS

677,286.05
=====

LIABILITIES IN CAPITAL

CURRENT LIABILITIES

310	ACCOUNTS PAYABLE	140,298.93
325	FICA PAYABLE	1,338.10
326	FEDERAL WITHHOLDING	1,099.38
327	MO STATE WITHHOLDING PAYB	246.00
328	FEDERAL UNEMPLOYMENT PAYB	10.75
329	MO STATE UNEMPLOY PAYABLE	51.63
362	ACCRUED INSURANCE	91.45

TOTAL CURRENT LIABILITIES 143,136.24

LONG TERM LIABILITIES

501	NOTES PAYABLE - UMB VEH 4	1,415.84
504	NOTES PAYABLE - CTB 62299	132,025.46
508	NOTES PAYABLE - UMB JOY'S	10,354.15
509	NOTES PAYABLE - SLUDGE TR	33,244.28
710	CONTRIBU IN AID OF CONSTR	218,087.14
720	ACCUM AMORT CONTR AID CON	26,770.24-

TOTAL LONG TERM LIABILITY 368,356.63

TOTAL LIABILITIES

511,492.87

RUN DATE: 10/05798
RUN TIME: 11:43 AM

CAPITAL UTILITIES, INC.

Balance Sheet
AS OF 07/31/98

LIABILITIES & CAPITAL

CAPITAL

3200	CAPITAL STOCK	800.00
3205	PAID IN CAPITAL	68,000.00
3210	RETAINED EARNINGS	146,032.95
3241	TREASURY STOCK	15,000.00-
3300	INCOME OR LOSS	34,039.77-

TOTAL CAPITAL

165,793.18

TOTAL LIABILITIES/CAPITAL

677,286.05

Balance Sheet
AS OF 07/31/98

*** SUBSIDIARY SCHEDULE ***

1002	CASH	
100202	CASH IN BANK - CENTRAL	1,671.99
100203	CASH IN SAVINGS ACCOUNT	4,697.34

		6,369.33
1004	CUSTOMER ACCTS RECEIVABLE	
100401	UTILITY BILLING CUSTOMERS	40,837.29
100402	HAULING/LAB CUSTOMERS	1,917.20

		42,754.49
1005	NOTES RECEIVABLE	
100502	NOTES RECEIVABLE - BLDG	6,107.53

		6,107.53
1010	UTILITY PLANT IN SERVICE	
101501	ORGANZTON-INTAG PLNT 301	3,516.50
101601	FRANCHISES-INTNG PLNT 302	4,112.00
101704	L & LR-TRNM/DISTR PLA 310	4,221.94
101705	L & L RIGHT-GENL PLNT 310	1,025.00
101803	STR/IMP-WATR TRET PLNT311	1,328.00
101804	STR/IMP-TRAN/DIST PLAN341	1,068.81
102102	WELL/SPRG-SORC SUP/PMP314	10,786.12
102302	SUPL MAIN-SORC SUP/PMP316	125.65
102502	PUMP EQUIP-SORC SUP/PUM325	25,185.46
102600	WTR TREATM EQUIPMENT 332	161.00
102603	WAT TE EQ-WTR TRT PLA 332	1,222.99
103004	RESV/STNDP-TRANS&DSTR 342	61,244.00
103104	TRNS/DSTR MAN-T/D PLAN343	90,304.64
103304	SERVCE-TRAN/DISTR PLNT345	14,844.99
103404	METER-TRAN/DISTR PLNT 346	25,022.35
103504	HYDRNT-TRAN/DIST PLAN 348	6,421.00
104105	TRANS EQUIP-GEN PLANT 392	7,010.66
104300	TOOLS/SHOP/GARG EQUIP 394	73.48
104305	TOOLS/SHOP/GAR-GENL PL394	44.80
104405	LAB EQUIP-GEN PLNT 395	770.42
104700	MISC EQUIPMENT 398	16,014.02
105101	ORGANIZTN-INTNG PLNT 301	1,543.66
105106	ORGANIZATION - COST 301	775.00
105107	ORGANIZTN - ACCM AMOR 301	119.00
105201	FRANCHISES-INTNGR PLNT302	4,112.00
105302	L & L RIGHTS-COLCT PLN310	2,255.65
105303	L & L RGHT-SYS PMP PLN310	70.00
105304	L & L RGHT-TRET/DIS PL310	9,365.00
105305	L & L RIGHTS-GENL PLN 310	1,225.00
105402	STRU/IMPR - COLL PLNT 311	23,501.04
105403	STRU/IMP - SYS PMP PLN311	5,860.92
105404	STRU/IMPR-TRET/DISP PL311	107,054.21

Balance Sheet
AS OF 07/31/98

05405	STRU/IMPR - GEN PLANT 311	28,951.47
06002	FRCE SEWR-COLLCT PLA352.1	4,879.65
06102	SEW GRAV-COLLCT PLNT352.2	378,249.22
06302	SER TO CUST-COLL PLNT 354	42,008.60
07003	RECV WELL-SYS PMP PLNT362	18,048.87
07103	PUMP EQUIP-SYS PMP PLT363	10,766.78
08004	TRET/DISP EQUIP-T&D PLN373	78,456.85
08104	PLNT SEW-TRET/DISP PLN374	16,764.64
08903	PLANT/MISC EQ-SYS PUMP PL	402.14
08904	PLNT/MISC EQ-TR/DSP PL376	1,914.63
09005	OFF FURN/EQ-GENERAL PLANT	107.50
09105	TRAN EQUIP-GENL PLNT 392	85,414.05
09305	TOOL/SHOP/GAR EQ-GE PL393	12,752.37
09405	LAB EQUIP - GENL PLNT 393	4,292.86
09605	COM EQUIP - GENL PLNT 393	9,044.12
09705	MISC EQUIP-GENL PLNT 393	950.67

		1,131,151.73

135 CONST. WORK IN PROGRESS

321 UTILITY DEPOSITS

Income Statement
 FOR THE MONTH ENDING 07/31/98

CURR. PERIOD RATIO: NET REVENUE					
YTD RATIO.....: NET REVENUE		THIS MONTH	RATIO	7 MONTHS	RATIO
0205	NON UTILITY INCOME - LAB	338.84	0.9	2,634.04	1.0
0206	NONUTILITY INCOME - HAUL	300.00	0.8	2,585.50	1.0
UTILITY OPERATING INCOME					
WATER SALES					
0610	METERED WATER REVENUE	8,021.03	22.2	50,902.29	19.8
OTHER WATER REVENUES					
0710	MISC SERVICE REVENUES	220.00	0.6	1,742.15	0.7
0770	WATER-PENALTY LATE PAYMNT	110.00	0.3	622.50	0.2
0775	WATER - PRIMACY FEE	2.00-	0.0-	853.00	0.3
SEWER SALES					
0210	FLAT RATE REVENUE	21,761.40	60.2	145,874.59	56.8
0220	MEASURED REVENUE	4,577.10	12.7	46,996.58	18.3
OTHER SEWER REVENUES					
0351	SEWER INSPECTION FEE	0.00	0.0	825.00	0.3
0370	SEWER-PENALTY LATE PAYMNT	805.00	2.2	3,627.50	1.4
0380	SEWER RETURN CHECK FEE	0.00	0.0	10.00	0.0
TOTAL OPERATING REVENUE		36,131.37	100.0	256,673.95	100.0
TOTAL INCOME/REVENUE		0.00	0.0	0.00	0.0
WATER OPERATING EXPENSES					
0010	EMP SALARY/WAGES	916.05	2.5	6,453.44	2.5
0050	TELEPHONE	40.18	0.1	305.00	0.1
0051	BEEPER/MOBILE	74.77	0.2	485.99	0.2
0150	PURCHASED POWER	543.00	1.5	5,459.19	2.1
0180	CHEMICALS	0.00	0.0	345.38	0.1
0200	MATERIALS AND SUPPLIES	289.94	0.8	2,009.76	0.8
0250	REPAIRS OF WATER PLANT	0.00	0.0	6,415.68	2.5
0320	CONTRACT SERVICES - ACCT,	82.50	0.2	577.50	0.2
0340	CONTR SERV - MANAGEM FEES	1,602.18	4.4	10,611.54	4.1
0350	CONTRACT SERVICES - LAB	0.00	0.0	200.00	0.1
0420	RENTAL OF EQUIPMENT	145.11	0.4	551.04	0.2
0500	TRANSPORTATION EXPENSES	109.63	0.3	481.08	0.2
0560	INSURANCE - VEHICLE	295.19	0.8	1,878.51	0.7
0570	INSURANCE-GENERAL LIABILI	149.67	0.4	1,040.16	0.4
0670	REGULATORY COMM EXP-OTHER	0.00	0.0	817.25	0.3
0710	BANK CHARGES	21.56	0.1	163.68	0.1
0750	MISCELLANEOUS EXPENSE	0.00	0.0	314.14	0.1
0800	INTEREST EXPENSE	598.49	1.7	4,562.02	1.8
0850	DEPECIATION EXPENSE	712.15	2.0	4,985.05	1.9
0851	TAXES OTHER THAN INCOME	0.00	0.0	309.48	0.1
SEWER OPERATING EXPENSES					
0010	EMP SALARY/WAGES	7,921.40	21.9	44,955.00	17.5
0040	EMPLOYEE PENSION & BENEFI	133.81	0.4	609.14	0.2
0041	TAXES - EMPLOYER'S FICA	669.05	1.9	3,847.82	1.5
0042	TAXES-STATE UNEMPLOYMENT	49.95	0.1	546.63	0.2
0043	TAXES - FEDERAL UNEMPLOY	324.02-	0.9-	218.93	0.1
0044	INCOME TAXES	0.00	0.0	16.00	0.0
0050	TELEPHONE	30.90	0.1	290.83	0.1

Income Statement
 FOR THE MONTH ENDING 07/31/98

CURR. PERIOD RATIO: NET REVENUE				7 MONTHS	
YTD RATIO.....	NET REVENUE	THIS MONTH	RATIO		RATIO
7051	KEEPER/MOBILE	300.72	0.8	2,030.95	0.8
7110	SLUDGE REMOVAL EXPENSE	0.00	0.0	1,530.00	0.6
7150	PURCHASED POWER	1,816.31	5.0	15,255.80	5.9
7170	PURCHASED WATER	42.59	0.1	252.34	0.1
7180	CHEMICALS	816.86	2.3	932.12	0.4
7200	MATERIALS AND SUPPLIES	1,581.34	4.4	9,741.69	3.8
7250	REPAIRS OF SEWER PLANT	7,981.48	22.1	17,455.41	6.8
7290	TRASH SERVICE	51.89	0.1	363.23	0.1
7320	CONTRACT SERVICES - ACCT,	82.50	0.2	577.50	0.2
7330	CONTRACT SERVICE - LEGAL	140.00	0.4	3,216.25	1.3
7340	CONTR SERV - MANAGEM FEES	8,980.01	24.9	60,311.34	23.5
7350	CONTRACT SERVICES - LAB	0.00	0.0	360.00	0.1
7360	CONTRACT SERVICES - OTHER	1,409.00	3.9	6,500.00	2.5
7410	RENTAL BLDG/REAL PROPERTY	1,000.00	2.8	8,760.00	3.4
7500	TRANSPORTATION EXPENSES	2,606.91	7.2	11,926.58	4.6
7560	INSURANCE - VEHICLE	295.20	0.8	1,796.86	0.7
7570	INSURANCE - GENERAL LIABI	149.67	0.4	1,350.38	0.5
7580	INSURANCE - WORK COMP	0.00	0.0	167.28	0.1
7590	INSURANCE - OTHER	342.07	0.9	1,560.99	0.6
7670	REGULATORY COMM EXP-OTHER	0.00	0.0	26,425.40	10.3
7680	REGULATORY AGENCY PERMITS	115.00	0.3	880.00	0.3
7700	BAD DEBT EXPENSE	0.00	0.0	73.86	0.0
7710	BANK CHARGES	21.56	0.1	163.72	0.1
7750	MISCELLANEOUS EXPENSES	115.43	0.3	2,875.24	1.1
7800	INTEREST EXPENSE	865.12	2.4	6,538.20	2.5
7850	DEPRECIATION EXPENSE	2,138.11	5.9	14,966.77	5.8
7851	TAXES OTHER THAN INCOME	0.00	0.0	334.48	0.1
TOTAL OPERATING EXPENSES		44,913.28	124.3	294,796.63	114.9
NET INCOME/LOSS		8,781.91-	24.3-	38,122.68-	14.9-
OTHER INCOME & EXPENSES					
0010	INTEREST & DIVIDEND INCOM	453.20-	1.3-	3,372.91-	1.3-
TOTAL OTHER INCOME/EXPENS		453.20-	1.3-	3,372.91-	1.3-
PROVISION FOR TAXES					
0060	INCOME TAXES EXPENSE	0.00	0.0	710.00-	0.3-
TOTAL PROVISION FOR TAXES		0.00	0.0	710.00-	0.3-
NET INCOME/LOSS		8,328.71-	23.1-	34,039.77-	13.3-

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RIVERSIDE UTILITY COMPANY

Balance Sheet
AS OF 07/31/98

ASSETS

CURRENT ASSETS

002 CASH 5,385.91
004 CUSTOMER ACCTS RECEIVABLE 11,595.52

TOTAL CURRENT ASSETS 16,981.43

UTILITY PLANT

010 UTILITY PLANT IN SERVICE 422,468.26
140 ACCUM DEPR UTIL PLANT SER 74,466.04-
160 UTIL PLANT ACQUISITION AD 4,090.29-

TOTAL UTILITY PLANT ASSET 343,911.93

TOTAL ASSETS

360,893.36

LIABILITIES & CAPITAL

CURRENT LIABILITIES

310 ACCOUNTS PAYABLE 52,450.98

TOTAL CURRENT LIABILITIES 52,450.98

LONG TERM LIABILITIES

302 NOTES PAYABLE - CTR 6,127.35
710 CONTRIBU IN AID OF CONSTR 99,070.00
720 ACCUM AMORT CONTR AID CON 28,006.12-

TOTAL LONG TERM LIABILITIES 77,199.23

TOTAL LIABILITIES

129,650.21

50,184.78 TO WMS

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RIVERSIDE UTILITY COMPANY

Balance Sheet
AS OF 07/31/98

LIABILITIES & CAPITAL

CAPITAL

3200	CAPITAL STOCK	5,000.00
3205	PAID IN CAPITAL	37,575.00
3210	RETAINED EARNINGS	200,340.57
3215	TREASURY STOCK	25,000.00-
3300	INCOME OR LOSS	13,327.58

TOTAL CAPITAL 231,243.15

TOTAL LIABILITIES&CAPITAL 360,893.36

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RIVERSIDE UTILITY COMPANY

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Balance Sheet
AS OF 07/31/78

*** SUBSIDIARY SCHEDULE ***

002 CASH	
00202 CASH IN BANK - CENTRAL	5,385.91

	5,385.91

005 NOTES RECEIVABLE

010 UTILITY PLANT IN SERVICE	
01501 ORGANZTN -INTAG PLNT 301	14,306.45
01702 L & LR-SRCE SUPPL/PMP 310	5,592.51
01704 L & LR-TRNSM/DSTR PLA 340	66.00
01802 STR/IMP-SRCE SUP/PMP 311	2,737.93
01804 STR/IMP-TRNS/DISTR PLN341	20,095.59
01902 COL/IMP RES-SRCE SP/PU312	739.42
02102 WELL/SPRG-SRCE SUP/PMP314	77,457.22
02302 SUPL MAIN-SRCE SUP/PMP316	3,503.66
02402 GEN EQUIP-SORC SUP/PMP328	1,042.83
02502 PMP EQUIP-SRCE SUP/PUM325	30,811.30
02600 WATER TRTMENT EQUIPMNT 332	150.15
02603 WAT TRE EQ-WTR TRT PL 332	227.12
03004 RESV/STNDPIP-TRNS&DIST342	81,203.10
03104 TRNS/DSTR MAN-T/D PLN 343	112,872.68
03304 SERVICE-TRNS/DISTR PLNT345	33,008.18
03404 METERS-TRNS/DSTR PLNT 346	30,426.98
03504 HYDRNT-TRNS/DISTR PLN 348	1,312.66
03904 PLT/MISC EQ-TRN/DST PL398	1,710.93
04005 OFF FURN/EQ-GENRL PLNT391	895.15
04105 TRANS EQUIP-GENRL PLNT392	3,408.40

	422,468.26

135 CONST. WORK IN PROGRESS

Income Statement
 FOR THE MONTH ENDING 07/31/98

CURR. PERIOD RATIO: NET REVENUE
 YTD RATIO.....: NET REVENUE THIS MONTH RATIO 7 MONTHS RATIO

UTILITY OPERATING REVENUE					
WATER SALES					
1600	UNMETERED WATER REVENUE	4,386.01	32.2	31,064.00	38.2
1610	METERED WATER REVENUE	7,605.91	55.8	36,583.49	45.0
OTHER WATER REVENUES					
1710	MISC SERVICE REVENUES	230.00	1.7	3,066.30	3.8
1775	WATER - PRIMACY FEE	4.00-	0.0-	902.00	1.1
1776	WATER - SURCHARGE	1,418.25	10.4	9,666.92	11.9
SEWER SALES					
OTHER SEWER REVENUES					
TOTAL OPERATING REVENUE		13,636.17	100.0	81,282.79	100.0

WATER OPERATING EXPENSES					
.050	TELEPHONE	47.80	0.4	277.71	0.3
.150	PURCHASED POWER	673.80	4.9	3,862.01	4.8
.180	CHEMICALS	0.00	0.0	460.77	0.6
.200	MATERIALS AND SUPPLIES	227.17	1.7	2,253.32	2.8
.250	REPAIRS OF WATER PLANT	390.71	2.9	7,324.12	9.0
.300	CONTRACT SERVICE - EXCAV.	0.00	0.0	618.23	0.8
.320	CONTRACT SERVICES - ACCT.	0.00	0.0	825.00	1.0
.330	CONTRACT SERVICES - LEGAL	440.00	3.2	440.00	0.5
.340	CONTR SERV - MANAGEM FEES	6,061.50	44.5	42,508.26	52.3
.350	CONTRACT SERVICES - LAB	0.00	0.0	400.00	0.5
.500	TRANSPORTATION EXPENSES	0.00	0.0	18.25	0.0
.670	REGULATORY COMM EXP-OTHER	0.00	0.0	1,080.69	1.3
.700	BAD DEBT EXPENSE	0.00	0.0	174.40	0.2
.710	BANK SERVICE CHARGES	26.48	0.2	190.14	0.2
.750	MISCELLANEOUS EXPENSE	98.72	0.7	899.00	1.1
.800	INTEREST EXPENSE	70.84	0.5	837.27	1.0
.850	DEPRECIATION EXPENSE	924.83	6.8	6,473.01	8.0
.851	TAXES OTHER THAN INCOME	0.00	0.0	283.00	0.3
SEWER OPERATING EXPENSES					
TOTAL OPERATING EXPENSES		8,961.85	65.7	60,926.06	84.8

NET INCOME/LOSS 4,674.32 34.3 12,356.73 15.2

OTHER INCOME & EXPENSES					
.010	INTEREST & DIVIDEND INCOM	0.00	0.0	970.85-	1.2
TOTAL OTHER INCOME/EXPENS		0.00	0.0	970.85-	1.2-

PROVISION FOR TAXES					
TOTAL PROVISION FOR TAXES		0.00	0.0	0.00	0.0

NET INCOME/LOSS 4,674.32 34.3 12,356.73 15.2

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FOXFIRE UTILITY COMPANY

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Balance Sheet
AS OF 07/31/98

ASSETS

CURRENT ASSETS

002	CASH	4,115.25
004	CUSTOMER ACCTS RECEIVABLE	14,035.71
006	CO BANK DEBT RESERVE	29,354.35
007	NOTES RECV WMS	3,000.00

TOTAL CURRENT ASSETS 50,505.31

UTILITY PLANT

010	UTILITY PLANT IN SERVICE	718,634.96
140	ACCUM DEPR UTIL PLANT SER	134,127.81

TOTAL UTIL PLANT ASSETS 584,507.15

OTHER ASSETS

210	STOCK - COBANK	2,707.05
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TOTAL OTHER ASSETS 2,707.05

TOTAL ASSETS 637,719.51

LIABILITIES IN CAPITAL

CURRENT LIABILITIES

310	ACCOUNTS PAYABLE	6,942.47
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TOTAL CURRENT LIABILITIES 6,942.47

LONG TERM LIABILITIES

501	NOTES PAYABLE - COBANK	192,391.36
503	NOTES PAYABLE-GREENTREE P	170,249.32

TOTAL LONG TERM LIABILITY 362,640.68

TOTAL LIABILITIES 369,583.15

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FOXFIRE UTILITY COMPANY

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Balance Sheet
AS OF 07/31/98

LIABILITIES & CAPITAL

CAPITAL

204	CAPITAL STOCK	500.00
205	PAID IN CAPITAL	344,829.27
210	RETAINED EARNINGS	65,194.76--
300	INCOME OR LOSS	11,998.15--

TOTAL CAPITAL

268,136.36

TOTAL LIABILITIES/CAPITAL

637,719.51

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FOXFIRE UTILITY COMPANY

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Balance Sheet
AS OF 07/31/98

*** SUBSIDIARY SCHEDULE ***

002 CASH	
00201 CASH IN BANK - CENTRAL	4,115.25

	4,115.25

005 NOTES RECEIVABLE

010 UTILITY PLANT IN SERVICE	
01501 ORGANIZ.-INTG PLNT (301)	5,710.15
01702 L&LR-SRCE SPPL/PMP (310)	1,574.00
01705 L&L RIGHT-GEN PLANT (309)	2,090.00
02102 WELL/SARG-SRC SUP/PMP 314	64,308.00
02103 WELL HOUSE (311)	13,248.84
02502 PMP EQUIP-SRC SUP/PUM 325	27,728.00
03004 RESV/STNDPI-TRNS&DSTR 342	88,892.00
03304 SERVC-TRANS/DSTR PLNT 345	4,073.96
03404 METERS-TRNS/DSTR PLNT 346	8,033.97
04005 OFF FURN/EQ-GEN PLANT 391	2,014.87
04405 LAB EQUIP-GEN PLANT 395	9,897.82
05101 ORGANIZATION-INTG PLT 301	1,883.52
05304 L&L RIGHT-TRT/DISP PL 310	7,152.00
05404 STRU/IMPR-TRT/DSP PL 311	170,779.03
06002 FRC SEWER-COLCT PLA 352.1	326.78
07103 PMP EQUIP-SYS PMP PLT 363	27,503.60
08004 TRT/DSP EQUIP-T&D PLN 373	278,968.46
08904 PLT/MISC EQ-TR/DSP PL 376	331.57
09005 OFF FURN/EQ-GEN PLANT 391	1,284.87
09405 LAB EQUIP - GEN PLANT 393	2,833.52

	718,634.96

.135 CONST. WORK IN PROGRESS

310 CASH

.321 UTILITY DEPOSITS

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FOXFIRE UTILITY COMPANY

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Income Statement
 FOR THE MONTH ENDING 07/31/98

CURR. PERIOD RATIO: NET REVENUE YTD RATIO.....: NET REVENUE	THIS MONTH	RATIO	7 MONTHS	RATIO
TOTAL OPERATING INCOME	0.00	0.0	0.00	0.0
UTILITY OPERATING INCOME				
WATER SALES				
4610 METERED WATER REVENUE	3,164.15	31.9	17,026.32	33.1
OTHER WATER REVENUES				
4710 MISC SERVICE REVENUES	130.00	1.3	1,320.00	2.6
4770 WATER-PENALTY LATE PAYMNT	90.00	0.9	527.50	1.0
4775 WATER - PRIMACY FEE	0.00	0.0	354.00	0.7
SEWER SALES				
5220 MEASURED REVENUE	6,450.30	65.0	31,751.91	61.6
OTHER SEWER REVENUES				
5370 SEWER-PENALTY LATE PAYMNT	90.00	0.9	527.50	1.0
TOTAL OPERATING REVENUE	9,924.45	100.0	51,507.23	100.0
TOTAL INCOME/REVENUE	0.00	0.0	0.00	0.0
WATER OPERATING EXPENSES				
5150 PURCHASED POWER	219.00	2.2	1,436.74	2.8
5200 MATERIALS AND SUPPLIES	38.77	0.4	221.49	0.4
5250 REPAIRS OF WATER PLANT	0.00	0.0	45.00	0.1
5320 CONTRACT SERVICES - ACCT,	0.00	0.0	330.00	0.6
5340 CONTR SERV - MANAGEM FEES	1,131.03	11.4	9,279.43	18.0
5350 CONTRACT SERVICES - LAB	0.00	0.0	200.00	0.4
5570 INSURANCE-GENERAL LIABILI	98.41	1.0	437.84	0.9
5670 REGULATORY COMM EXP-OTHER	0.00	0.0	309.25	0.6
5750 MISCELLANEOUS EXPENSE	31.68	0.3	678.35	1.3
5760 BANK CHARGES	3.03	0.0	39.88	0.1
5800 INTEREST EXPENSE	688.15	6.9	4,886.20	9.5
5850 DEPRECIATION EXPENSE	729.33	7.3	5,105.31	9.9
5851 TAXES OTHER THAN INCOME	0.00	0.0	167.00	0.3
SEWER OPERATING EXPENSES				
7110 SLUDGE REMOVAL EXPENSE	0.00	0.0	1,435.00	2.8
7150 PURCHASED POWER	681.28	6.9	3,796.42	7.4
7200 MATERIALS AND SUPPLIES	0.00	0.0	120.00	0.2
7320 CONTRACT SERVICES - ACCT,	0.00	0.0	330.00	0.6
7340 CONTR SERV - MANAGEM FEES	1,678.25	16.9	13,103.57	25.4
7360 CONTRACT SERVICES - OTHER	0.00	0.0	355.00	0.7
7570 INSURANCE - GENERAL LIABI	98.42	1.0	339.47	0.7
7670 REGULATORY COMM EXP-OTHER	0.00	0.0	4,562.37	8.9
7710 BANK CHARGES	3.04	0.0	39.91	0.1
7750 MISCELLANEOUS EXPENSES	0.00	0.0	144.73	0.3
7800 INTEREST EXPENSE	688.16	6.9	4,886.25	9.5
7850 DEPRECIATION EXPENSE	1,772.50	17.9	12,407.50	24.1
7851 TAXES OTHER THAN INCOME	0.00	0.0	167.00	0.3
TOTAL OPERATING EXPENSES	7,861.05	79.2	64,824.51	125.9

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FOXFIRE UTILITY COMPANY

Income Statement
FOR THE MONTH ENDING 07/31/98

CURR. PERIOD RATIO: NET REVENUE YTD RATIO.....: NET REVENUE	THIS MONTH	RATIO	7 MONTHS	RATIO
NET INCOME/LOSS	2,063.40	20.8	13,317.28-	25.9-
TOTAL OPERATING EXPENSES	0.00	0.0	0.00	0.0
OTHER INCOME & EXPENSES				
3010 INTEREST & DIVIDEND INCOM	104.84-	1.1-	1,319.13-	2.6-
TOTAL OTHER INCOME/EXPENS	104.84-	1.1-	1,319.13-	2.6-
PROVISION FOR TAXES				
TOTAL PROVISION FOR TAXES	0.00	0.0	0.00	0.0
NET INCOME/LOSS	2,168.24	21.8	11,998.15-	23.3-

AquaSource, Inc
Consolidated Financial Statements
September, 1998

AquaSource, Inc.
Consolidated Balance Sheet

(Unaudited)

	September 1998	December 31, 1997
Assets		
<i>Current Assets</i>		
Cash	250,671	849,930
Accounts receivable - customers	3,328,242	236,559
Other receivables	2,188,773	
Income tax receivable	1,282,776	234,799
Funds held by trustee	831,038	
Inventory	142,399	19,100
Prepayments	180,634	
Other	1,415,769	
<i>Total current assets</i>	9,620,302	1,340,388
<i>Fixed Assets</i>		
Utility plant in service	38,725,977	1,276,975
Other fixed assets	4,702,798	733,240
	43,428,775	2,010,215
Accumulated depreciation	(690,310)	(65,253)
Construction work in progress	72,330	
<i>Total fixed assets</i>	42,810,795	1,944,962
<i>Other Assets and Deferred Charges</i>		
Investments in Water Companies	1,836,662	704,031
Regulatory assets	17,995,139	
Goodwill	9,134,987	
Customer lists and relationships	6,368,508	5,481,911
Deferred tax assets	20,800,000	
Investment in marketable securities (collateral account)	9,641,082	
Other	5,021,111	28,138
<i>Total other assets and deferred charges</i>	70,797,489	6,214,080
Total Assets	123,228,586	9,499,430
 Liabilities and Shareholders' Equity		
<i>Liabilities</i>		
<i>Current Liabilities</i>		
Accounts payable	1,108,945	196,081
Accounts payable - affiliates	250,724	245,000
Billings in excess of costs and profits	902,617	
Customer deposits	277,088	
Accrued taxes	43,208	
Other accrued liabilities	820,514	
<i>Total current liabilities</i>	3,403,096	441,081
<i>Non Current Liabilities</i>		
Deferred income taxes	26,601,407	
Long term debt	17,908,582	
Other	827,994	
<i>Total noncurrent liabilities</i>	45,337,983	
<i>Shareholders' Equity</i>		
Contributions by the "A" Shareholders	74,771,660	9,856,645
Contributions by the "B" Shareholders	626,000	400,000
Retained earnings	(910,153)	(1,198,296)
<i>Total shareholders' equity</i>	74,487,507	9,058,349
Total Liabilities and Shareholders' Equity	123,228,586	9,499,430

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

AquaSource, Inc.
Consolidated Statement of Income
September, 1998
(Unaudited)

	Year-to Date
Revenues	
Sales of water and wastewater	\$ 5,001,349
Contract operations	3,967,677
Engineering and construction	4,767,013
<i>Operating revenues</i>	13,736,039
 Operating Expenses	
Operation and maintenance expenses	5,946,060
Cost of construction	3,609,978
Depreciation and amortization	389,169
General and administrative	3,689,353
<i>Operating expenses</i>	13,634,560
 Other Income/Expense	
Interest Income	177,517
AFUDC	35,069
Other Expense	(281,206)
<i>Other income/expense</i>	(68,620)
 Income before Income Taxes	 32,859
Income tax expsnse (benefit)	11,501
Net Income	\$ 21,358

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