

American Water Works Company, Inc.
Form 10-Q
May 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	51-0063696
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
1025 Laurel Oak Road, Voorhees, NJ	08043
(Address of principal executive offices)	(Zip Code)

(856) 346-8200

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

Class	Outstanding at April 30, 2015
Common Stock, \$0.01 par value per share	179,962,233 shares

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AMERICAN WATER WORKS COMPANY, INC.

REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (Unaudited)

(In thousands, except per share data)

	March 31, 2015	December 31, 2014
ASSETS		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of \$4,062,270 at March 31 and \$3,991,680 at December 31	\$ 12,985,631	\$ 12,899,704
Nonutility property, net of accumulated depreciation of \$239,246 at March 31 and \$248,341 at December 31	112,936	129,592
Total property, plant and equipment	13,098,567	13,029,296
Current assets		
Cash and cash equivalents	24,294	23,080
Restricted funds	21,027	13,859
Accounts receivable	267,204	267,053
Allowance for uncollectible accounts	(35,485)	(34,941)
Unbilled revenues	222,111	220,538
Income taxes receivable	8,014	2,575
Materials and supplies	38,622	37,190
Deferred income taxes	119,839	86,601
Other	63,393	45,414
Total current assets	729,019	661,369
Regulatory and other long-term assets		
Regulatory assets	1,151,849	1,153,429
Restricted funds	8,796	8,958
Goodwill	1,208,043	1,208,043
Other	67,257	69,861
Total regulatory and other long-term assets	2,435,945	2,440,291
TOTAL ASSETS	\$ 16,263,531	\$ 16,130,956

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

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (Unaudited)

(In thousands, except per share data)

	March 31, 2015	December 31, 2014
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock (\$0.01 par value, 500,000 shares authorized, 179,921 shares	\$ 1,799	\$ 1,795
outstanding at March 31 and 179,462 at December 31)		
Paid-in-capital	6,313,242	6,301,729
Accumulated deficit	(1,224,008)	(1,295,549)
Accumulated other comprehensive loss	(81,503)	(81,868)
Treasury stock	(16,592)	(10,516)
Total common stockholders' equity	4,992,938	4,915,591
Long-term debt	5,428,901	5,432,744
Redeemable preferred stock at redemption value	14,296	15,501
Total capitalization	10,436,135	10,363,836
Current liabilities		
Short-term debt	544,531	449,959
Current portion of long-term debt	61,149	61,132
Accounts payable	203,409	285,800
Taxes accrued	55,714	24,505
Interest accrued	94,934	56,523
Other	267,811	363,079
Total current liabilities	1,227,548	1,240,998
Regulatory and other long-term liabilities		
Advances for construction	362,722	367,693
Deferred income taxes	2,199,681	2,120,739
Deferred investment tax credits	24,676	25,014
Regulatory liabilities	386,317	391,782
Accrued pension expense	317,444	316,368
Accrued postretirement benefit expense	191,689	192,502
Other	36,059	37,152
Total regulatory and other long-term liabilities	3,518,588	3,451,250
Contributions in aid of construction	1,081,260	1,074,872
Commitments and contingencies (See Note 9)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	\$ 16,263,531	\$ 16,130,956

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

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Operations and Comprehensive Income (Unaudited)

(In thousands, except per share data)

	For the Three Months Ended March 31,	
	2015	2014
Operating revenues	\$698,078	\$679,003
Operating expenses		
Operation and maintenance	323,832	325,180
Depreciation and amortization	107,377	105,924
General taxes	63,696	60,667
Gain on asset dispositions and purchases	(1,128)	(210)
Total operating expenses, net	493,777	491,561
Operating income	204,301	187,442
Other income (expenses)		
Interest, net	(75,673)	(73,560)
Allowance for other funds used during construction	2,360	2,201
Allowance for borrowed funds used during construction	2,522	1,483
Amortization of debt expense	(1,764)	(1,673)
Other, net	1,756	(1,541)
Total other income (expenses)	(70,799)	(73,090)
Income from continuing operations before income taxes	133,502	114,352
Provision for income taxes	53,459	45,239
Income from continuing operations	80,043	69,113
Loss from discontinued operations, net of tax	—	(990)
Net income	\$80,043	\$68,123
Other comprehensive income (loss), net of tax:		
Pension amortized to periodic benefit cost:		
Prior service cost, net of tax of \$25 and \$27, respectively	\$39	\$41
Actuarial (gain) loss, net of tax of \$832 and \$(5), respectively	1,302	(7)
Foreign currency translation adjustment	(996)	(550)
Unrealized loss on cash flow hedge, net of tax of \$10	20	—
Other comprehensive income (loss)	365	(516)
Comprehensive income	\$80,408	\$67,607
Basic earnings per share:		
Income from continuing operations	\$0.45	\$0.39
Loss from discontinued operations, net of tax	\$0.00	\$(0.01)
Net income	\$0.45	\$0.38
Diluted earnings per share:		
Income from continuing operations	\$0.44	\$0.39
Loss from discontinued operations, net of tax	\$0.00	\$(0.01)
Net income	\$0.44	\$0.38
Average common shares outstanding during the period		

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Basic	179,458	178,539
Diluted	180,295	179,457
Dividends declared per common share	\$—	\$—

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

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three Months Ended	
	March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$80,043	\$68,123
Adjustments		
Depreciation and amortization	107,377	106,078
Provision for deferred income taxes	34,368	44,919
Amortization of deferred investment tax credits	(338)	(349)
Provision for losses on accounts receivable	7,578	7,580
Allowance for other funds used during construction	(2,360)	(2,201)
Gain on asset dispositions and purchases	(1,128)	(270)
Pension and non-pension postretirement benefits	15,324	6,018
Stock-based compensation expense	2,418	2,711
Other, net	(13,844)	9,624
Changes in assets and liabilities		
Receivables and unbilled revenues	(8,758)	3,307
Taxes receivable, including income taxes	(5,439)	(4,322)
Other current assets	(3,171)	(9,654)
Pension and non-pension postretirement benefit contributions	(12,732)	(10,714)
Accounts payable	(30,052)	(59,140)
Taxes accrued, including income taxes	31,209	21,729
Interest accrued	38,411	41,568
Change in book overdraft	(19,368)	22,089
Other current liabilities	(20,919)	(2,222)
Net cash provided by operating activities	198,619	244,874
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(226,411)	(192,466)
Acquisitions	(48)	(2,279)
Proceeds from sale of assets	1,214	243
Removal costs from property, plant and equipment retirements, net	(14,265)	(10,460)
Net funds released	(7,006)	(238)
Net cash used in investing activities	(246,516)	(205,200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(3,091)	(2,192)
Proceeds from short-term borrowings with maturities greater than three months	—	35,000
Repayment of short-term borrowings with maturities greater than three months	—	(221,000)
Net short-term borrowings with maturities less than three months	94,572	193,920
Proceeds from issuances of employee stock plans and DRIP	6,191	8,199
Advances and contributions for construction, net of refunds of \$4,146 and		
\$5,277 at March 31, 2015 and 2014, respectively	5,346	1,358

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Redemption of preferred stock	(1,200)	(1,200)
Dividends paid	(55,615)	(49,968)
Tax benefit realized from equity compensation	2,908	—
Net cash provided by (used in) financing activities	49,111	(35,883)
Net increase in cash and cash equivalents	1,214	3,791
Cash and cash equivalents at beginning of period	23,080	26,964
Cash and cash equivalents at end of period	\$24,294	\$30,755
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at end of period	\$133,799	\$109,464
Non-cash financing activity:		
Advances and contributions	\$3,006	\$3,526

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

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American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(In thousands)

	Common Shares	Stock Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares At Cost	Total Stockholders' Equity	
Balance at December 31, 2014	179,462	\$1,795	\$6,301,729	\$(1,295,549)	\$(81,868)	(261)	\$(10,516)	\$4,915,591
Cumulative effect of change in								
accounting principle	—	—	—	(8,395)	—	—	—	(8,395)
Net income	—	—	—	80,043	—	—	—	80,043
Direct stock reinvestment								
and purchase plan, net of								
expense of \$11	11	—	566	—	—	—	—	566
Employee stock purchase								
plan	21	—	1,170	—	—	—	—	1,170
Stock-based compensation								
activity	427	4	9,777	(45)	—	(109)	(6,076)	3,660
Other comprehensive								
income, net of tax of \$867	—	—	—	—	365	—	—	365
Dividends	—	—	—	(62)	—	—	—	(62)
Balance at March 31, 2015	179,921	\$1,799	\$6,313,242	\$(1,224,008)	\$(81,503)	(370)	\$(16,592)	\$4,992,938

	Common Shares	Stock Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares At Cost	Total Stockholders' Equity	
Balance at December 31, 2013	178,379	\$1,784	\$6,261,396	\$(1,495,698)	\$(34,635)	(132)	\$(5,043)	\$4,727,804
Net income	—	—	—	68,123	—	—	—	68,123
Direct stock reinvestment	10	—	430	—	—	—	—	430
and purchase plan, net of								

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expense of \$8										
Employee stock purchase										
plan	25	—	1,076	—	—	—	—	—	1,076	
Stock-based compensation										
activity	562	6	9,375	(175)	—	(118)	(4,977)	4,229
Other comprehensive										
loss, net of tax of \$22	—	—	—	—	(516)	—	—	(516)
Dividends	—	—	—	(59)	—	—	—	(59)
Balance at March 31, 2014	178,976	\$1,790	\$6,272,277	\$(1,427,809)	\$(35,151)	(250)	\$(10,020)	\$4,801,087

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

American Water Works Company, Inc. and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited)

(In thousands, except per share data)

Note 1: Basis of Presentation

The unaudited consolidated financial statements provided in this report include the accounts of American Water Works, Company, Inc. and its subsidiaries (collectively, the “Company”) after the elimination of intercompany accounts and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the financial position at March 31, 2015 and results of operations and cash flows for all periods presented have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

The Consolidated Balance Sheet as of December 31, 2014 is derived from the Company's audited consolidated financial statements at December 31, 2014. These unaudited financial statements and notes should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014 which provides a more complete understanding of our accounting policies, financial position, operating results and other matters. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, due primarily to the seasonality of the Company's operations.

The accompanying Notes to the Consolidated Financial Statements relate to continuing operations only unless otherwise indicated.

The Company reclassified previously reported 2014 data to conform to the current presentation for discontinued operations. See Note 3 for additional details on the Company's discontinued operations.

Note 2: New Accounting Pronouncements

The following recently issued accounting standards have been adopted by the Company and have been included in the consolidated results of operations, financial position or footnotes of the accompanying Consolidated Financial Statements:

Service Concession Arrangements

In January 2014, the Financial Accounting Standards Board (“FASB”) issued guidance for an operating entity that enters into a service concession arrangement with a public sector grantor who controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide the services and at what price. The grantor also controls, through ownership or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement. The guidance specifies that an operating entity should not account for the service concession arrangement as a lease. The operating entity should refer instead to other accounting guidance to account for the various aspects of the arrangement. The guidance also specifies that the infrastructure used in the arrangement should not be recognized as property, plant and equipment of the operating entity. The update required application on a modified retrospective basis to service concession arrangements that existed at January 1, 2015. The Company reduced nonutility property and other long-term assets for infrastructure related to service concession arrangements and recognized a cumulative effect adjustment of \$8,395, net of tax, to the opening balance of accumulated deficit at January 1, 2015.

Reporting Discontinued Operations

In April 2014, the FASB issued guidance that changed the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the updated guidance, a discontinued operation is defined as a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. A strategic shift could include a disposal of a major geographical area of operations, a major line of business, a major equity method investment or other major part of the entity. A component comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity including a reportable segment, an operating segment, a reporting unit, a subsidiary or an asset group. The update no longer precludes presentation as a discontinued operation if there are operations and cash flows of the component that have not been eliminated from the reporting entity's ongoing operations or if there is significant continuing involvement with a component after its disposal. The guidance is effective on a prospective basis for interim and annual periods beginning after December 15, 2014, which for the Company is January 1, 2015.

The following recently issued accounting standards are not yet required to be adopted by the Company:

Revenue from Contracts with Customers

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance is effective for annual and interim periods beginning December 15, 2016, which for the Company is January 1, 2017. Early adoption is not permitted. The new guidance allows for either full retrospective adoption, meaning the guidance is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The FASB voted on April 1, 2015 to propose to defer the effective date of the new revenue recognition standard by one year. Based on the proposed FASB decision, public organizations would apply the new revenue standard to annual reporting periods beginning after December 15, 2017, which is January 1, 2018 for the Company. Additionally in its proposal, the FASB decided to permit early adoption but not before the original public organization effective date (that is, annual periods beginning after December 15, 2016 or January 1, 2017 for the Company). The FASB plans to expose its decisions for a thirty-day public comment period in a proposed Accounting Standards Update, which is expected to be issued sometime during the second quarter of 2015. The Company is evaluating the new guidance, the best transition method and the impact the new standard will have on results of operations, financial position or cash flows.

Accounting for Stock-based Compensation with Performance Targets

In June 2014, the FASB issued guidance for the accounting for stock-based compensation tied to performance targets. The amendments clarify that a performance target that affects vesting of a share-based payment and that could be achieved after the requisite service period is a performance condition. As a result, the target is not reflected in the estimation of the award's grant date fair value and compensation cost would be recognized over the required service period, if it is probable that the performance condition will be achieved. The updated guidance may be applied either: (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued guidance that explicitly requires an entity's management to assess the entity's ability to continue as a going concern. The new guidance requires an entity to evaluate, at each interim and annual period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued (or are available to be issued) and to provide related disclosures, if applicable. The new guidance is effective for annual periods ending after December 15, 2016 and for interim and annual periods thereafter, which for the Company is January 1, 2017. Early adoption is permitted. The adoption of this updated guidance is not expected to have a material impact on its results of operations, financial position or cash flows.

Hybrid Financial Instruments Issued in the Form of a Share

In November 2014, the FASB updated the derivatives and hedging guidance requiring issuers of, or investors in, hybrid financial instruments to determine whether the nature of the host contract is more akin to a debt instrument or an equity instrument by considering the economic characteristics and risks of the entire hybrid financial instrument,

including the embedded derivative feature that is being evaluated for separate accounting from the host contract. This update should be applied on a modified retrospective basis to hybrid financial instruments issued in the form of a share that exist at the beginning of an entity's fiscal year of adoption. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

Extraordinary and Unusual Items

In January 2015, the FASB issued guidance that eliminates the concept of an extraordinary item. As a result, an entity will no longer segregate an extraordinary item and present it separately from the results of ordinary operations or separately disclose income taxes or earnings per share information applicable to an extraordinary item. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently has been retained and expanded to include items that are both unusual in nature and infrequently occurring. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The updated guidance may be applied prospectively or retrospectively to all periods presented in the financial statements. The adoption of this updated guidance is not expected to have a material impact on results of operations, financial position or cash flows.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued guidance that amends the consolidation analysis for variable interest entities (“VIEs”) as well as voting interest entities. The amended guidance (1) modifies the assessment of limited partnerships as VIEs, (2) amends the effect that fees paid to a decision maker or service provider have on the VIE analysis, (3) amends how variable interests held by a reporting entity’s related parties and de facto agents impact its consolidation conclusion, (4) clarifies how to determine whether equity holders have power over an entity and (5) provides a scope exception for registered and similar unregistered money market funds. The guidance is effective for the first interim period within annual reporting periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted as of the beginning of the annual period containing the adoption date. The guidance may be applied retrospectively to each prior reporting period presented or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption (modified retrospective method). The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance on imputation of interest and simplifying the presentation of debt issuance costs. The updated guidance requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. Such treatment is consistent with the current presentation of debt discounts or premiums. As it stood prior to amendment, debt issuance costs were reported in the balance sheet as an asset (i.e., a deferred charge), whereas debt discounts and premiums were, and remain, reported as deductions from or additions to the debt itself. Recognition and measurement guidance for debt issuance costs is not affected by the amendments. The effective date is for financial statements covering fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The amended guidance must be applied on a retrospective basis. Thus, balance sheets for each period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The Company is evaluating the new guidance and does not expect this new guidance to have a material impact on its results of operations, financial position or cash flows.

Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued guidance clarifying how customers should account for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service and other similar hosting arrangements. Under the new guidance, if a cloud computing arrangement contains a software license, the customer would account for the fees related to the software license element in a manner consistent with the acquisition of other software licenses. If the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. The guidance may be applied retrospectively or prospectively to arrangements entered into, or materially modified after the effective date. The guidance is effective for annual periods, and interim periods therein, beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

Note 3: Divestitures

In November 2014, the Company completed the sale of Terratec Environmental Ltd (“Terratec”) previously included in the Market-Based Operations segment. A summary of discontinued operations presented in the Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2014 is as follows:

Operating revenues	\$2,943
Total operating expenses, net	4,289
Loss from discontinued operations before	
income taxes	(1,346)
Benefit from income taxes	(356)
Loss from discontinued operations	\$(990)

Note 4: Stockholders' Equity

Accumulated Other Comprehensive Loss

The following table presents changes in accumulated other comprehensive loss by component, net of tax, for the three months ended March 31, 2015 and 2014, respectively:

	Defined Benefit Plans				Loss	Total
	Employee	Amortization	Amortization	Foreign	on	Accumulated
	Benefit	of Prior	of Actuarial	Currency	Cash	Other
	Plan	Service	(Gain) Loss	Translation	Flow	Comprehensive
	Funded	Cost			Hedge	Loss
	Status					
Beginning balance at January 1, 2015	\$(115,830)	\$ 879	\$ 31,119	\$ 2,755	\$(791)	\$(81,868)
Other comprehensive income (loss) before reclassifications	—	—	—	(996)	—	(996)
Amounts reclassified from accumulated other comprehensive income (loss)	—	39	1,302	—	20	1,361
Net comprehensive income (loss) for the period	—	39	1,302	(996)	20	365
Ending balance at March 31, 2015	\$(115,830)	\$ 918	\$ 32,421	\$ 1,759	\$(771)	\$(81,503)
Beginning balance at January 1, 2014	\$(69,711)	\$ 713	\$ 31,150	\$ 3,213	\$—	\$(34,635)
Other comprehensive income (loss) before reclassifications	—	—	—	(550)	—	(550)
Amounts reclassified from accumulated other comprehensive income (loss)	—	41	(7)	—	—	34
Net comprehensive income (loss) for the period	—	41	(7)	(550)	—	(516)
Ending balance at March 31, 2014	\$(69,711)	\$ 754	\$ 31,143	\$ 2,663	\$—	\$(35,151)

The Company does not reclassify the amortization of defined benefit pension cost components from accumulated other comprehensive loss directly to net income in its entirety. These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. (See Note 8)

The amortization of the loss on cash flow hedge is included in interest, net in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Stock Options

In the first three months of 2015, the Company granted non-qualified stock options to certain employees under the Plan. The stock options vest ratably over the three-year service period beginning January 1, 2015. These awards have no performance vesting conditions and the grant date fair value is amortized through expense over the requisite service period using the straight-line method.

The following table presents the weighted-average assumptions used in the Black-Scholes option-pricing model and the resulting weighted-average grant date fair value per share of stock options granted through March 31, 2015:

Dividend yield	2.35 %
Expected volatility	17.64 %
Risk-free interest rate	1.48 %
Expected life (years)	4.4
Exercise price	\$52.75
Grant date fair value per share	\$6.21

Stock options granted under the Plan have maximum terms of seven years, vest over periods ranging from one to three years, and are granted with exercise prices equal to the market value of the Company's common stock on the date of grant. As of March 31, 2015, \$2,565 of total unrecognized compensation cost related to the non-vested stock options is expected to be recognized over the weighted-average period of 2.2 years.

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The table below summarizes stock option activity for the three months ended March 31, 2015:

	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Life (years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2015	1,910	\$ 33.47		
Granted	301	52.75		
Forfeited or expired	(28)	42.73		
Exercised	(152)	30.24		
Options outstanding at March 31, 2015	2,031	\$ 36.44	3.6	\$ 36,087
Exercisable at March 31, 2015	1,468	\$ 31.89	2.6	\$ 32,765

The following table summarizes additional information regarding stock options exercised during the three months ended March 31, 2015 and 2014:

	2015	2014
Intrinsic value	\$3,575	\$4,206
Exercise proceeds	4,605	6,822
Income tax benefit	1,084	1,151

Restricted Stock Units

During 2012, the Company granted selected employees 158 restricted stock units with internal performance measures and, separately, certain market thresholds. These awards vested in January 2015. The terms of the grants specified that if certain performance on internal measures and market thresholds was achieved, the restricted stock units would vest; if performance was surpassed, up to 175% of the target awards would be distributed; and if performance thresholds were not met, awards would be cancelled. In January 2015, an additional 93 restricted stock units were granted and distributed because performance thresholds were exceeded.

In the first three months of 2015, the Company granted restricted stock units, both with and without performance conditions, to certain employees and non-employee directors under the Plan. The restricted stock units without performance conditions vest ratably over the three-year service period beginning January 1, 2015 and the restricted stock units with performance conditions vest ratably over the three-year performance period beginning January 1, 2015 (the "Performance Period"). Distribution of the performance shares is contingent upon the achievement of internal performance measures and, separately, certain market thresholds over the Performance Period. The restricted stock units granted with service-only conditions and those with internal performance measures are valued at the market value of the Company's common stock on the date of grant. The restricted stock units granted with market conditions are valued using a Monte Carlo model.

The following table presents the weighted-average assumptions used in the Monte Carlo simulation and the weighted-average grant date fair value of restricted stock units granted through March 31, 2015:

Expected volatility	14.90 %
Risk-free interest rate	1.10 %
Expected life (years)	3

Grant date fair value per share \$55.28

The grant date fair value of the restricted stock unit awards that vest ratably and have market and/or performance and service conditions is amortized through expense over the requisite service period using the graded-vesting method. Restricted stock units that have no performance conditions are amortized through expense over the requisite service period using the straight-line method. As of March 31, 2015, \$7,391 of total unrecognized compensation cost related to the non-vested restricted stock units is expected to be recognized over the weighted-average remaining life of 1.6 years.

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The table below summarizes restricted stock unit activity for the three months ended March 31, 2015:

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2015	516	\$ 41.46
Granted	105	55.28
Performance share adjustment	93	38.11
Vested	(274)	38.56
Forfeited	(14)	43.22
Non-vested total at March 31, 2015	426	\$ 45.94

The following table summarizes additional information regarding restricted stock units distributed during the three months ended March 31, 2015 and 2014:

	2015	2014
Intrinsic value	\$15,250	\$13,175
Income tax benefit	1,836	1,450

If dividends are paid with respect to shares of the Company's common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the participant a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling \$45 and \$175 to retained earnings during the three months ended March 31, 2015 and 2014, respectively.

Note 5: Long-Term Debt

The following long-term debt was retired through sinking fund payments during the first three months of 2015:

Company	Type	Rate	Maturity	Amount
American Water Capital Corp. ("AWCC") (a)	Private activity bonds and government			
	funded debt—fixed rate	1.79%-2.90%	2021-2031	\$ 807
Other subsidiaries	Private activity bonds and government	0.00%-5.30%	2015-2033	2,277

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	funded debt—fixed rate			
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments	12.17%	2026	7
Total retirements and redemptions				\$ 4,291

(a) AWCC, which is a wholly-owned subsidiary of the Company, has a strong support agreement with its parent that, under certain circumstances, is the functional equivalent of a guarantee.

The Company has an interest rate swap to hedge \$100,000 of its 6.085% fixed-rate debt maturing 2017. The Company pays variable interest of six-month LIBOR plus 3.422%. The swap is accounted for as a fair-value hedge and matures with the fixed-rate debt in 2017.

The following table provides a summary of the derivative fair value balance recorded by the Company and the line item in the Consolidated Balance Sheets in which such amount is recorded:

	March 31,	December 31,
Balance sheet classification	2015	2014
Regulatory and other long-term assets		
Other	\$3,874	\$ 3,636
Long-term debt		
Long-term debt	3,794	3,570

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For derivative instruments that are designated and qualify as fair-value hedges, the gain or loss on the hedge instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current net income. The Company includes the gain or loss on the derivative instrument and the offsetting loss or gain on the hedged item in interest expense as follows:

	Three Months Ended	
Income statement classification	March 31, 2015	2014
Interest, net		
Gain (loss) on swap	\$238	\$(377)
Gain (loss) on borrowing	(224)	328
Hedge ineffectiveness	14	(49)

Note 6: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling \$544,531 (net of discount of \$236) at March 31, 2015 and \$449,959 (net of discount of \$41) at December 31, 2014.

Note 7: Income Taxes

The Company's estimated annual effective tax rate for the three months ended March 31, 2015 was 39.5% compared to 40.1% for the three months ended March 31, 2014, excluding various discrete items.

The Company's actual effective tax rates for continuing operations were as follows:

	Three Months Ended	
	March 31, 2015	2014
Actual effective tax rate	40.0%	39.6%

Current deferred tax assets increased in 2015 due to the expected utilization of certain tax attributes within the next 12 months.

Note 8: Pension and Other Postretirement Benefits

The following table provides the components of net periodic benefit costs:

Three Months
Ended

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	March 31,	
	2015	2014
Components of net periodic pension benefit cost		
Service cost	\$9,334	\$7,943
Interest cost	18,576	19,163
Expected return on plan assets	(24,366)	(23,709)
Amortization of:		
Prior service cost	188	181
Actuarial (gain) loss	6,277	(33)
Net periodic pension benefit cost	\$10,009	\$3,545
Components of net periodic other postretirement benefit cost		
Service cost	\$3,443	\$2,764
Interest cost	7,466	7,151
Expected return on plan assets	(6,299)	(6,875)
Amortization of:		
Prior service credit	(547)	(547)
Actuarial (gain) loss	1,252	(20)
Net periodic other postretirement benefit cost	\$5,315	\$2,473

The Company contributed \$6,100 to its defined benefit pension plans in the first three months of 2015 and expects to contribute \$21,900 during the balance of 2015. In addition, the Company contributed \$6,632 for the funding of its other postretirement plans in the first three months of 2015 and expects to contribute \$19,895 during the balance of 2015.

Note 9: Commitments and Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At March 31, 2015, the Company has accrued approximately \$4,800 as probable costs and it is reasonably possible that additional losses could range up to \$29,900 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements recovered by plaintiffs in such claims or actions, if any, will not have a material adverse effect on the Company's results of operations, financial position or cash flows, individually or in the aggregate.

Note 10: Environmental Matters

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to \$2,200 at March 31, 2015 and December 31, 2014. The accrual relates to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration ("NOAA") requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay \$1,100 annually from 2010 through 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company's regulatory assets at March 31, 2015 and December 31, 2014 include \$7,794 and \$7,791, respectively, related to the NOAA agreement.

Note 11: Earnings per Common Share

Earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security. The Company has participating securities related to restricted stock units, granted under the Company's 2007 Omnibus Equity Compensation Plan, that earn dividend equivalents on an equal basis with common shares. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities.

The following is a reconciliation of the Company's income from continuing operations, loss from discontinued operations and net income and weighted-average common shares outstanding for calculating basic earnings per share:

	Three Months Ended	
	March 31,	
	2015	2014
Basic		
Income from continuing operations	\$80,043	\$69,113
Loss from discontinued operations, net of tax	—	(990)
Net income	80,043	68,123
Less: Distributed earnings to common shareholders	55,647	50,128
Less: Distributed earnings to participating securities	13	15
Undistributed earnings	24,383	17,980
Undistributed earnings allocated to common shareholders	24,378	17,975
Undistributed earnings allocated to participating securities	5	5

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Total income from continuing operations available to

common shareholders, basic	\$80,025	\$69,093
Total income available to common shareholders, basic	\$80,025	\$68,103
Weighted-average common shares outstanding, basic	179,458	178,539
Basic earnings per share: (a)		
Income from continuing operations	\$0.45	\$0.39
Loss from discontinued operations, net of tax	\$0.00	\$(0.01)
Net income	\$0.45	\$0.38

(a) Earnings per share amounts are computed independently for income from continuing operations, loss from discontinued operations and net income. As a result, the sum of per-share amounts from continuing operations and discontinued operations may not equal the total per-share amount for net income.

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Diluted earnings per common share is based on the weighted-average number of common shares outstanding adjusted for the dilutive effect of common stock equivalents related to the restricted stock units, stock options, and employee stock purchase plan. The dilutive effect of the common stock equivalents is calculated using the treasury stock method and expected proceeds on vesting of the restricted stock units, exercise of the stock options and purchases under the employee stock purchase plan.

The following is a reconciliation of the Company's income from continuing operations, loss from discontinued operations and net income and weighted-average common shares outstanding for calculating diluted earnings per share:

Diluted	Three Months Ended	
	March 31, 2015	2014
Total income from continuing operations available to		
common shareholders, basic	\$80,025	\$69,093
Loss from discontinued operations, net of tax	—	(990)
Total income available to common shareholders, basic	80,025	68,103
Undistributed earnings for participating securities	5	5
Total income from continuing operations available to		
common shareholders, diluted	\$80,030	\$69,098
Total income available to common shareholders, diluted	\$80,030	\$68,108
Weighted-average common shares outstanding, basic	179,458	178,539
Common stock equivalents:		
Restricted stock units	370	318
Stock options	466	599
Employee stock purchase plan	1	1
Weighted-average common shares outstanding, diluted	180,295	179,457
Diluted earnings per share (a)		
Income from continuing operations	\$0.44	\$0.39
Loss from discontinued operations, net of tax	\$0.00	\$(0.01)
Net income	\$0.44	\$0.38

(a) Earnings per share amounts are computed independently for income from continuing operations, loss from discontinued operations and net income. As a result, the sum of per-share amounts from continuing operations and discontinued operations may not equal the total per-share amount for net income.

The following potentially dilutive common stock equivalents were not included in the earnings per share calculations because they were anti-dilutive:

Three
Months
Ended

	March 31,	
	2015	2014
Stock options	301	470
Restricted stock units where certain performance conditions were not met	37	90

Note 12: Fair Value of Financial Assets and Liabilities

Fair Value of Financial Instruments

The Company used the following methods and assumptions to estimate its fair value disclosures for financial instruments:

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

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

unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility A- debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

The carrying amounts, including fair value adjustments previously recognized in acquisition purchase accounting and a fair value adjustment related to the Company's interest rate swap fair value hedge (which is classified as Level 2 in the fair value hierarchy), and fair values of the financial instruments are as follows:

	Carrying Amount	At Fair Value as of March 31, 2015			
		Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	\$15,947	\$—	\$—	\$21,011	\$21,011
Long-term debt (excluding capital lease obligations)	5,487,521	2,963,789	1,485,337	2,065,021	6,514,147

	Carrying Amount	At Fair Value as of December 31, 2014			
		Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	\$17,151	\$—	\$—	\$22,167	\$22,167
Long-term debt (excluding capital lease obligations)	5,491,341	2,874,622	1,474,708	2,055,058	